

McCarthy Asset Management, Inc.

Registered Investment Advisor

May 1, 2006

Monthly Investment Commentary- April 2006

Stock Market Performance for April: Stocks were generally up for the month—unadjusted for dividends, the S & P 500 rose 1.2%, the Nasdaq dropped 0.7%, and the Russell 2000 was flat. REITs fell, and bonds were mixed, while foreign stocks and commodities rose sharply.

MAM Performance for April: For the month, MAM portfolios outperformed the S & P 500, with a composite return of 2.0% (after all fees), versus a rise of 1.3% for the Vanguard Index 500 fund (symbol VFINX) with dividends reinvested.

The five best performing MAM mutual funds were Dodge & Cox International Stock (up 6.6%), PIMCO Commodity (up 6.6%), Artisan International Small Cap (up 6.4%), Oakmark International Small Cap (up 5.5%), and Causeway International (up 5.2%).

The five worst performing MAM mutual funds were Cohen & Steers REIT (down 3.1%), North Track PSE Technology (down 0.2%), Marsico Focus (down 0.2%), Nuveen High Yield Mnuni (-0.1%), and PIMCO Total Return (bonds) (down 0.0%).

Year-To-Date Performance: For the first four months of 2006, unadjusted for dividends, the S & P 500 rose 5.1%, the Nasdaq climbed 5.4%, and the Russell 2000 jumped 13.7%. MAM portfolios out performed the S & P 500 for these four months, with a composite return of 7.5% (after all fees), versus a rise of 5.6% for the Vanguard Index 500 fund (symbol VFINX) with dividends reinvested.

Recent Economic Reports Continue to Be Good: Recent economic reports indicate a resilient U.S. economy, despite fast-climbing gasoline prices. In particular, the preliminary first-quarter of 2006 real gross domestic product (GDP) showed a robust annualized gain of 4.8%, a sharp advance over 2005's muted fourth-quarter gain of 1.7%. New orders for manufactured durable goods, including big-ticket items such as appliances, farm machinery, and computers, rose more than expected in March. The 6.1% increase was the largest monthly gain since May of 2005.

The housing market was stronger than expected in March, with existing-home sales rising slightly and new-home sales rebounding sharply, up 13.8% over the previous month. Inventories of both new and existing homes increased, however, sustaining worries that the housing market is indeed softening.

Even with the economy zipping ahead in the first quarter, inflation actually moderated. An inflation gauge closely watched by the Federal Reserve showed that core prices—excluding food and energy—rose 2 percent, down from 2.4 percent in the fourth quarter. A separate report from the Labor Department suggested that the strengthening job market isn't fueling inflation. Employers' cost to hire and retain workers rose by 0.6 percent in the first quarter, the slowest pace in seven years.

Fed Close to Ending Interest Rate Increases?: On April 19th the Federal Reserve released the minutes from the March 27th and 28th meeting of the Federal Open Market Committee. At that meeting the Fed decided to raise the federal-funds rate to 4.75% with its 15th consecutive quarter-point increase since June of 2004 (when the rate stood at 1.0%). The minutes indicated that the Fed was close to ending its campaign of rate increases (although at least one more raise is likely). The stock market responded very favorable to the release of the minutes as the S & P 500 rose 1.7% on April 19th.

Corporate Earnings: The early indications for the first quarter of 2006 are that corporations will report another quarter of strong earnings growth. With a third of the S & P 500 companies having already reported earnings, the average quarterly gain has been roughly 12%, with approximately 70% of the companies so far exceeding analyst estimates.

Current Projects: The following is a list of projects we are currently working on:

1. *New Risk Tolerance Questionnaire:* Since the launch of MAM 6 ½ years ago, we have used the same “Investment Objectives Questionnaire” to measure the risk tolerance of new clients. In addition, we have not asked existing clients to update their risk profile. A major project for 2006 is to create a new Risk Tolerance Questionnaire and to ask new and existing clients to complete it. We hope to have the new Questionnaire completed within the next month. We will then send it to most clients to update their risk tolerance.
2. *Client Meetings:* Another major goal for 2006 is for me to meet with many clients. This meeting can either be in person or via a telephone and internet connection. Items to address include a multi-year review of account performance, my outlook regarding the stock market, comments regarding the Net Worth Analysis, eStatements, the Web site, etc. and an open forum to address any items the client would like to discuss. Please contact me if you are interested in scheduling a meeting.
3. *Net Worth Analysis:* So far we have completed these for 45 clients. We have also resent questionnaires to 45 clients who did not complete and return the initial one. Please let us know if you would like to have a Net Worth Analysis performed for you.
4. *Review and Update of Beneficiaries:* We are in the process of having Schwab provide us with a list of primary and contingent beneficiaries for all IRA and other tax-deferred accounts. We will then provide clients a list of the beneficiaries on their accounts to determine whether any changes are warranted. Unfortunately since Schwab only retains contingent beneficiary information on microfiche, this project will take many months to complete.

Please call or email me if you have any questions or would like to discuss your portfolio(s).

Sincerely,

Stephen P. McCarthy