McCarthy Asset Management
Registered Investment Advisor
Certified Public Accountant
Certified Financial Planner

April 18, 2002

Dear Client,

This is the MAM report for the quarter ending March 31, 2002. Although I would have preferred to send this earlier, I was not able to start work on it until after tax season ended. I hope to be earlier with this next year as I continue to scale back my tax practice. I have been anxious to generate this report, as the news is good. The MAM reports last year were a mixture of good and bad. While for all of 2001 the average fully invested MAM account outperformed the loss of the S & P 500 (MAM accounts lost 7.9% versus the S & P 500 loss of 11.8%), my clients still lost money. For the first quarter of 2002 I am happy to report not only continued strong performance relative to the S & P 500, but a positive return for most accounts.

Enclosed are four investment reports for the quarter ending March 31, 2002. The first is titled "Portfolio Position Analysis". It lists your investments that I manage and shows how each has performed. The second, "Portfolio Performance Summary", shows the rate of return on your investments for the first quarter of 2002. The third is the "Portfolio Performance History". It shows the monthly and cumulative rate of return on your portfolio since inception. The fourth report, "Realized Gains and Losses", is included only for taxable accounts. It lists the investment gains and losses that were realized during the first quarter of 2002.

Stock Market Performance

For the first quarter of 2002 the stock market was mixed. For the quarter the S & P 500 slipped 0.1% to 1147, the Nasdaq Composite dropped 5.4% to 1845, while the Russell 2000 rose 3.5% to 506. Small stocks once again outperformed large stocks and value stocks outperformed growth stocks.

After the very strong performance for the fourth quarter of 2002, the slight drop in the market did not disappoint me this quarter. The biggest obstacle for U.S. equities now is that despite the dramatic drop in the price of technology stocks during the last two years, the stock market is not cheap. Until there are signs that corporate earnings will be rising, the stock market may continue to tread water. Fortunately corporate earnings are expected to start recovering in the second quarter of 2002.

Outlook for Stocks

For the next several years it is very possible that the rate of return of the S & P 500 will average in the single digits. This is quite a change from the 15% to 20% annual returns that occurred

1900 O'Farrell St, Suite 330, San Mateo, CA 94403, (650) 638-0667 Fax (650) 638-0222; e-mail: SteveMtax@aol.com

during much of the 1990's. Much of that unsustainable performance occurred because investors were willing to pay higher and higher prices for stocks relative to their earnings (i.e. price-earnings multiple expansion).

With stocks somewhat overpriced relative to interest rates and rates at fairly low levels, a repeat of the price-earnings multiple-expansion that occurred in the late 1990's is not something that can be counted on. Without multiple-expansion, returns will be dependent on dividend yields (currently under 2%) and earnings growth. Earnings growth for the S & P 500 has averaged 6% over the past 50 years. This leads to an average return in the high single digits for the market.

Why invest in the stock market if you may only earn 6 to 8%? Because the stock market will probably do as well or better than any of the alternatives. Money market accounts currently pay less than 2%. What about government and high-quality corporate bonds? Historically bonds have returned less than stocks but with less volatility. A significant portion of the high return on bonds during the last twenty years was from the dramatic drop in interest rates. When interest rates fall bond prices rise. Unfortunately when rates rise, bond prices fall. With interest rates now as low as they have been since the 1960's and the economy starting to recover, I expect that high quality bonds will return less than stocks.

My goal with MAM is to outperform the return of the S & P 500 with similar or lower risk. So far I have generally been able to achieve this through favorable asset allocation (small stocks have outperformed large stocks during the last two years and REITs have done very well) and through good mutual fund selection. In addition I feel that MAM has a strong competitive advantage by utilizing mutual funds that have provided superior performance and have closed to new investors at small asset levels. In fact 6 of the 19 mutual funds that are in most MAM portfolios are no longer available to most new investors.

MAM Performance for the Quarter

In General: MAM portfolios performed very well in the first quarter relative to the S & P 500. Of the fully invested MAM portfolios, 88% outperformed the S & P 500 loss of 0.1%. The average return of fully invested MAM portfolios was a gain of 1.5% (after MAM fees). Generally the only portfolios that under performed the S & P 500 were those that contained individual stocks.

Best Performers: The eight best performing MAM mutual funds for the quarter were Artisan Small Cap Value (up 9.4%), Cohen & Steers REIT (8.2%), PBHG Clipper Focus (8.1%), Bogle Small Cap Growth (6.6%), Oakmark Fund (4.2%), Vanguard Healthcare (3.1%), Oakmark Select (2.5%), Pioneer High Yield Bond (2.4%), Acorn International (2.4%) and Bjurman Micro Cap (1.2%).

Worst Performers: The MAM mutual funds that under performed the S & P 500 for the quarter had significant technology exposure. In order of worst performance these were Firsthand Technology Value (down 15.6%), Bjurman All Cap (down 6.7%), Red Oak Technology (down 6.6%), and White Oak Growth (down 4.9%).

Oldest Portfolio: The MAM portfolio with the longest track record is a fairly aggressive $50,000 portfolio that was fully invested on September 13, 1999. As of March 31, 2002 the original $50,000 had grown to $60,608 for a cumulative return of 21.2%. During that time the S & P 500 lost 12.1%. For the quarter ended March 31, 2002 the portfolio rose 1.6%. All returns quoted for this portfolio (and for all MAM portfolios) are net of MAM fees (0.25% per quarter). Also past performance is not necessarily indicative of future performance.

Fund Spotlight

For this quarter I am providing detailed information regarding Bill Nygren the manager of Oakmark Select and Oakmark Fund. Oakmark Select closed to new investors during the Spring of 2001. I am using Oakmark Fund in its place for new MAM clients. As of March 31, 2002 MAM assets invested in these funds were $2.1 million for Oakmark Select and $0.4 million for Oakmark Fund. The combined assets invested in these two funds represent the second largest investment MAM has with one investment manager (a slightly larger amount is invested with Bjurman Funds).

Bill Nygren has done very well ever since the stock market peaked in March of 2000. Oakmark Select returned 25.8% for 2000, 26.1% for 2001, and 2.5% for the first quarter of 2002. Oakmark Fund returned 11.8% for 2000, 18.3% for 2001, and 4.2% for the first quarter of 2002.

Enclosed is a seven-page article that was from a March 10, 2002 speech that Bill Nygren gave. I found the article interesting because it gives a great deal of insight into the approach that he takes in selecting stocks.

I had mixed feelings about including this article. My concern was I didn't know how many of you would find such a lengthy article on investments of interest. (Personally I love reading this kind of material but my interests are not necessarily indicative of yours.) If you do find this type of material useful, please let me know. You can call me or send me an e-mail (*stevemtax@aol.com*).

Recent MAM Portfolio Activity

Portfolio Adjustments: During the first quarter of 2002 I did no changes in most MAM portfolios. Given my expectations for the stock market, I am very pleased with the current asset allocation of MAM portfolios. The typical portfolio has a 20 to 25% weighting in large cap U.S. stocks, 40 to 50% weighting in small-cap and mid-cap U.S. stocks, an 8 to 13% weighting in bonds (primarily high-yield), a 7 to 8% weighting in REITs, and a 10 to 13% weighting in international. My expectations for the next year or two are:

- small companies will continue to outperform large companies
- REITs and high yield bonds will do very well
- many international markets will outperform the U.S. market

Fund Closings: As expected two funds which are in almost all MAM portfolios closed to new investors during the first quarter: Artisan Mid Cap and Bogle Small Cap Growth Fund. I am very glad these funds closed before their growing asset base could become detrimental to performance. Fortunately for new MAM clients, both funds had a "soft" closing which means that as an investment advisor with an existing position in these funds, I can still purchase them for new clients.

The closing of the Bogle fund is particularly important because it invests in small cap stocks. The fund closed with an asset base of only $170 million. As of March 31, 2002 $1.9 million of MAM assets are invested in the fund (over 1% of the fund's assets). Bogle Small Cap has had outstanding performance during its short existence. For the year 2000 (it's first full year) it returned 26.8%, for 2001 it returned 5.2%, and for the first quarter of 2002 it returned 6.6%. Perhaps someone should tell fund manager John Bogle, Jr. (the son of the founder of Vanguard funds) that we have been through a bear market!

Increase in Minimum Investment Amount

As of March 31, 2002 MAM assets under management were in excess of $32 million, up from $29 million at the start of the year. With the anticipated inflow from new clients, assets are expected to exceed $35 million during the second quarter of 2002.

MAM assets have continued to grow rapidly during a difficult stock market. The new clients have come from former tax clients and referrals from existing MAM clients. I very much appreciate these referrals. My long-term plan is still to limit the number of MAM clients to 200. (The current number of clients who have invested $75,000 or more is now 152.) In an effort to keep the number of clients at a manageable level, this Summer I plan to raise the minimum amount to become a client from the current $200,000 to the new level of $250,000. This increase will only be for new clients, as I will still manage lesser amounts for existing clients.

Meanwhile I continue to reduce the size of my tax practice. For the tax season just ended my office prepared 198 tax returns (down from 255 for the prior tax season).

Miscellaneous Items

Internet Access to your Schwab account(s): Many of you have already set up Internet access to your MAM account(s). For those who would still like to do so, please call the Charles Schwab Alliance Group at 1-800-515-2157 (extension 2). You simply need to provide them your account number(s). They will then assign you a password. If needed they can also walk you through the process of signing on to the Schwab website. If you need this assistance you should call weekdays between the hours of 5:30 A.M. and 4:00 P.M.

Schwab Paperwork- What to Keep: I must apologize for the large volume of paperwork that you receive from Schwab related to your MAM account(s). Part of the reason is my fault. I use many more mutual funds (typically 19 or 20) in a portfolio than most other investment managers. Why do I use so many? Partly it is because I want to establish positions in funds before they close off to new investors. Once the funds close, I typically can make additional purchases for an existing position. The other reason I use so many is to achieve broad diversification.

The paperwork you now receive from Schwab includes trade confirmations, monthly statements, quarterly and/or annual reports for each mutual fund, and prospectus for each fund. I recommend that you only keep the Schwab monthly statements (as well as my quarterly reports). Although there is no need to save them, I do recommend that you read the quarterly/annual reports from the mutual fund companies. This will provide you with a better understanding of the mutual funds in your portfolio (as well as expand your knowledge of the stock market).

You do not need to keep anything for tax reasons because for taxable accounts my portfolio management software will generate the gain/loss reports that are needed to file your tax returns.

One measure that Schwab is undertaking to reduce paperwork is a policy called "householding" which should eliminate duplicate mailings for the same mutual fund that you hold in different accounts.

Your Performance

Also enclosed is the invoice that shows my asset management fees for the quarter. Charles Schwab will automatically deduct these fees from your account.

Please call me if you have any questions or if you want to discuss your portfolio.

Very truly yours,

Stephen P. McCarthy, CPA

encl: Investment Reports
Interview with Oakmark Manager Bill Nygren