McCarthy Asset Management, Inc.

Registered Investment Advisor

August 2, 2006

Monthly Investment Commentary- July 2006

Stock Market Performance for July: The stock market was mixed in July. Unadjusted for dividends, the S & P 500 rose 0.6%, the Nasdaq dropped 3.7%, and the Russell 2000 fell 3.3%. Foreign stocks and bonds rose modestly while REITS and commodities rose over 3%.

MAM Performance: For the month, MAM portfolios underperformed the S & P 500, with a composite return of 0.0% (after all fees), versus a rise of 0.6% for the Vanguard Index 500 fund (symbol VFINX) with dividends reinvested.

The five best performing MAM investments for July were PIMCO Commodity (up 4.3%), Cohen & Steers REIT (up 3.5%), iShares Dow Jones (up 3.3%), Income Fund of America (up 1.8%), and Dodge & Cox International Stock (up 1.7%).

The five worst performing MAM investments for July were Bjurman Micro Cap (down 8.0%), Marsico Focus (down 3.5%), William Blair Small Cap (down 3.2%), Oakmark Select (down 2.7%), and Century Small Cap (down 2.6%).

Year-To-Date Performance: For the first seven months of 2006, unadjusted for dividends, the S & P 500 rose 2.3%, the Nasdaq fell 5.2%, and the Russell 2000 rose 4.2%. MAM portfolios out performed the S & P 500 for these seven months, with a composite return of 3.8% (after all fees), versus a rise of 3.3% for the Vanguard Index 500 fund (symbol VFINX) with dividends reinvested. More importantly, MAM portfolios have outperformed the S & P 500 for each of the first six years of MAM's operations (2000 through 2005).

Recent Economic Reports: Slowing Economy & Increasing Inflation: On July 28th the Commerce Department reported that gross domestic product growth for the second quarter of 2006 grew at an annualized rate of 2.5%. As expected, the rate was down sharply from the first quarter's inflated growth rate of 5.3%. The Commerce Department also reported that "core" consumer prices, which exclude the volatile energy and food components, surged at an annual rate of 2.9% for the second quarter. These conflicting reports (slowing economy, rising inflation), make it unclear as to whether the Federal Reserve will continue its streak of 17 increases in interest rates when it meets next week.

Reports released in July indicate that the housing market continues to show signs of slowing. The National Association of Realtors reported that the pace of sales of existing homes in the United States fell 1.3% in June to its slowest since January as condominium sales tumbled, and price increases were the weakest in 11 years. There were a record 3.73 million homes for sale at the end of June, representing a 6.8 months' supply, compared to a 6.4 months at the end of May. The June supply was the largest since July 1997, when the inventory stood at a 6.9 months' supply.

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Bull or Bear Market?: Since May 10th the stock market has experienced a dramatic increase in volatility. The primary concern is continued Federal Reserve interest rate increases will slow the economy and possibly trigger inflation. More recently oil prices have climbed to near record levels due to further unrest in the Middle East.

While I do have concerns of a slowing economy, I am heartened that the continued strong profit reports being reported by companies is causing the stock market to become cheaper. Based on second quarter earnings reports released so far, it appears that companies in the S & P 500 will report earnings growth of close to 14% from the prior year's second quarter. This will represent the twelfth consecutive quarter of growth in excess of 10%. Analysts currently project that the double-digit earnings growth will continue through at least the remainder of 2006.

As a result of the growth in corporate earnings outpacing the increase in stock prices, the price-to-earnings ratio for the S & P 500 based on earnings for the last 12 months has fallen to its long-term average of 16 (and down from 30 when the market peaked in 2000). Based on earnings expected for the next 12 months, the S & P 500 is currently selling at a price-to-earnings ratio of 14, which is the lowest level in more than a decade. In short, as long as the economy and corporate earnings continue to grow, I feel that stocks are likely to at least appreciate modestly from current levels.

Current Portfolio Positioning:

MAM portfolios were rebalanced during the second quarter for the 145 clients that completed and returned their Risk Assessment Questionnaires. The portfolios for the remaining 45 clients will be rebalanced once they complete and return their questionnaire. I am waiting for the return of a client's completed questionnaire so that their current risk tolerance can be incorporated in the repositioning.

The following is a discussion of the current asset allocation of most MAM portfolios:

1. ***U.S. Equities (40% to 55% of portfolios):*** With the latest repositioning, I have continued the 2-year effort to increase large-cap exposure and decrease small-caps. Large-caps now make up approximately 2/3 of the U.S. stock exposure in most portfolios. This is a dramatic change from a couple of years ago when small caps had a greater weighting. This small-cap overweighting was a significant benefit to MAM portfolios during the last 6 years as small caps dramatically outperformed large caps. I now feel that large cap stocks are very attractively priced relative to small caps.

2. ***Bonds (15% to 30%):*** The main purpose of investing in bond funds is to provide downside protection in case equities start to decline again. The cost for this protection is that MAM portfolios could under perform the S & P 500 if the market continues to rise. The bonds within the funds used by MAM are comprised of a variety of types including high quality, high yield, convertible and international bonds.

3. ***International Equites (17% to 23%):*** Over the last couple of years international funds have been among the best performing funds used by MAM. As a result, the

percentage of portfolios invested in international equities has continued to climb. International equities now represent close to 30% of total equity exposure in most portfolios. I continue to like international equities because of the diversification benefit and as a hedge against a falling U.S. dollar.

Despite my positive outlook for international equities, with the most recent repositioning I am selling a portion of two big winners: Artisan International Small Cap and Oakmark International Small Cap. These two funds have both returned approximately 35% per year for the last three years. My concern is that the strong performance of international small caps is causing too much money to be invested in that area as investors chase performance.

4. ***Alternative Assets (8% to 12%):*** MAM portfolios invest in alternative assets in an attempt to reduce the volatility of portfolios without sacrificing performance. Currently most MAM portfolios have three funds in this category: Cohen & Steers REITs, Hussman Strategic Growth and PIMCO Commodity.

New Project: Reviewing IRA Beneficiary and Contingent Beneficiary Info: One of the projects that I have targeted for 2006 is to notify clients of the names of the beneficiaries listed on their retirement accounts. I feel it is important for clients to periodically revisit this and make changes as deemed necessary. A couple of months ago we asked Schwab to create a report listing the beneficiary and contingent beneficiary for each of the retirement accounts managed by MAM. Recently Schwab provided us with the report. Over the next couple of months we plan to send you a letter listing the names of beneficiaries for each of your MAM-managed retirement accounts. We will ask you to review the information and make any changes.

Client Meetings: Since early May I have had meetings with 43 clients (including "phone meetings" for clients who live out of the area). Items typically addressed included a discussion of the Net Worth Analysis, multi-year review of account performance, and discussions regarding alternative assets, the Risk Assessment Questionnaire, and eStatements. Please let me know if you would like to schedule a meeting. I still have a little time before I leave for vacation in mid-August.

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

Sincerely,

Stephen P. McCarthy, CPA, CFP