McCarthy Asset Management, Inc.

Registered Investment Advisor

December 1, 2006

Monthly Investment Commentary- November 2006

Stock Market Performance for November: The stock market had another good month for November. Unadjusted for dividends, the S & P 500 rose 1.7%, the Nasdaq climbed 2.8%, and the Russell 2000 rose 2.5%. Foreign stocks, REITs, bonds, and commodities also rose.

MAM Performance: For the month, MAM portfolios outperformed the S & P 500, with a composite return of 2.4% (after all fees), versus a rise of 1.9% for the Vanguard Index 500 fund (symbol VFINX), with dividends reinvested. Manager selection was a positive contributor to MAM's performance, as 9 of the 10 U.S. equity mutual funds used by MAM outperformed the S & P 500. Foreign mutual funds were also a significant cause for positive performance due to weakness in the U.S. dollar. Hurting relative performance was the impact of the bond funds. While all seven bond and balanced funds rose for the month, six of them returned less than the S & P 500.

The six best performing MAM investments for November were PIMCO Commodity (up 6.0%), Oakmark International Small Cap (up 5.1%), Artisan International Small Cap (up 4.6%), Cohen & Steers REIT (up 4.6%), Causeway International (up 3.6%), and Artisan Small Cap Value (up 3.4%).

The six worst performing MAM investments for November were Allied Capital (down 2.6%), Hussman Strategic Growth (down 0.1%), Nuveen High Yield Muni (up 1.0%), PIMCO Total Return Bonds (up 1.1%), Dodge & Cox Balanced (up 1.2%), and Loomis Sayles Bond (up 1.5%).

Year-To-Date Performance: 2006 has been a very good year. For the first eleven months, unadjusted for dividends, the S & P 500 rose 12.3%, the Nasdaq climbed 10.3%, and the Russell 2000 rose 16.8%. MAM portfolios underperformed the S & P 500 for these eleven months, with a composite return of 12.9% (after all fees), versus a rise of 14.1% for the Vanguard Index 500 fund (symbol VFINX), with dividends reinvested. The main reason for the underperformance has been the impact of lower returns earned by the bond and balanced funds in MAM portfolios.

Continued Slow-Down in U.S. Economy: On November 30th the Commerce Department released its revised estimate of third quarter gross domestic product (GDP). The growth in the economy was 2.2%, up from the initial estimate of 1.6%. Residential fixed investment, the component of gross domestic product that reflects the nation's spending on housing, plunged 18% during the quarter, the sharpest drop in 15 years. The impact of the dramatic slowdown in housing was significant as it reduced the GDP figure by 1.2%.

While most economists agree that the economy will cool further in the current quarter, as housing sales and construction activity decline, there is considerable debate about the extent of the slowdown. Earlier this week, Federal Reserve Chairman Ben Bernanke said that excluding housing and autos, growth remains "solid" and that the Fed is more inclined to raise short-term rates than to cut them. David Seiders, chief economist at the National Association of Home Builders, said demand for homes appears to be stabilizing, a point that Mr. Bernanke made in explaining his upbeat view of the economy.

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Outlook for the Stock Market: While the stock market has performed well this year with year-to-date double digit gains, I would like to moderate expectations that these gains are not sustainable. I still feel that we are in a relatively low return environment. With the economy (exclusive of housing) continuing to perform well and corporate earnings maintaining their dramatic multi-year growth, it could be easy for an investor to become complacent. Although I am not predicting a downturn in stock prices, the stock market tends to surprise people. To help protect against a downturn is stock prices, MAM portfolios are diversified among various asset classes. For instance, while the investment in bond mutual funds has hurt portfolios performance this year, it should help when stock prices turn down.

Furthermore, it is important that investors maintain a consistent approach in their investments and not allow their emotions to influence their investment decisions. For instance, during periods of rising stock prices, the risk is that investors become complacent about risk or worse yet, allow greed to cause them to become overly aggressive in their investment approach. These may be the same investors whose fear led them to reduce their stock exposure when the market hit its multi-year low in 2002/2003. The purpose of the Risk Assessment Questionnaire (RAQ) that clients completed earlier this year was to allow me to tailor the risk in their portfolio(s) to what they are comfortable with in good and bad markets.

Portfolio Repositioning: This week we completed portfolio repositioning for most accounts. We rebalance the asset allocation of portfolios at least twice per year. The main emphasis of the most recent repositioning was to reduce U.S. small company exposure and to increase U.S. large company exposure.

Updates to Net Worth Analysis: We are now coming up to the one-year anniversary for the initial clients for whom we prepared a Net Worth Analysis. In December these clients will be receiving via an email from Billy a questionnaire to list the most recent values for their assets and liabilities. Once we receive the completed questionnaire, we will provide an updated Net Worth Analysis. This updated Net Worth Analysis will be interesting in that clients will be able to see the 1-year change in their assets and liabilities. I have personally found this exercise very useful for the last sixteen years.

eStatements: We continue to make good progress in signing clients up for eStatements. We manage approximately 500 accounts at Schwab Institutional. Three months ago, 166 of those accounts were enrolled in eStatements. One month ago, 262 of the accounts were enrolled. As of November 29th, 324 accounts were enrolled. Of the remaining accounts, 124 are still subject to Schwab's higher commission rate ($19.95). Just a reminder: if you do enroll in eStatements, please let Billy, Marilyn, or myself know. We will then verify that the enrollment was completed and that your account qualifies for the lower commission rate.

Increase in Our Minimum for New Clients: Reflecting the increase in the amount of assets under management, and in the interest of keeping the number of clients at a manageable level, effective January 1, 2007, I plan to raise the minimum amount for becoming a new client to $600,000, from the current level of $500,000. This increase does not impact existing clients who have less than $500,000 in managed assets.

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

Sincerely,

Stephen P. McCarthy, CPA, CFP