

McCarthy Asset Management, Inc.

Registered Investment Advisor

November 2, 2009

Monthly Investment Commentary- October 2009

Stock Market Performance for October: After six consecutive monthly gains, the stock market fell for October. Unadjusted for dividends, the S & P 500 fell 2.0%, the NASDAQ dropped 3.6%, the Russell 2000 fell 6.8%, and the international equity index MSCI EAFE slipped 1.3%. Corporate bonds rose modestly for the month.

MAM October Performance: For the month, MAM portfolios outperformed the S & P 500. Excluding the “very conservative portfolios” (which rose modestly) MAM portfolios fell 0.9%, versus a drop of 1.9% for the Vanguard Index 500 fund (symbol VFINX) with dividends reinvested. The outperformance of MAM portfolios relative to the S & P 500 was primarily due to MAM portfolios being more conservatively invested than the S & P 500.

Year-To-Date Performance: For the first ten months of 2009, unadjusted for dividends, the S & P 500 rose 14.7%, the NASDAQ jumped 29.7%, the Russell 2000 rose 12.7%, and the international equity index MSCI EAFE climbed 23.9%. Excluding the “very conservative portfolios”, MAM portfolios slightly outperformed the S & P 500 for these ten months with a rise of 17.6% (after all fees) versus a rise of 17.1% for the Vanguard Index 500 fund with dividends reinvested.

Economic Update

With the exception of unemployment which probably won't peak until some time in 2010, the economic news continues to point toward an economic recovery:

1. *GDP for 3rd quarter of 2009:* Last Thursday the initial estimate of gross domestic product (GDP) for the 3rd quarter of 2009 was released. It showed that after four consecutive quarters of contraction, the U.S. economy expanded at a 3.5% seasonally adjusted annual rate for the quarter. Growth was spurred by government spending, particularly the “cash for clunkers” program for new cars and a first-time homebuyer’s credit for the purchase of a home. A big question is what will happen to the recovery after the government supports are gone. Currently economists predict growth will continue, although at a more moderate pace. The National Association of Business Economics thinks growth will slow to a 2.4% pace in the current quarter, and 2.5% growth rate in the 1st quarter of 2010.
2. *Standard & Poor’s/Case-Shiller Home Price Index:* Last week the most recent monthly figures for the index were released and they showed that home prices in 20 metropolitan areas rose 1% sequentially in August, the third straight month-over-month advance. While prices are still down about 30% from the peak in 2006, the rebound appears widespread. Prices rose in 15 metro areas since June, with San Francisco, Minneapolis and San Diego leading the way. Karl E. Case, one of the creators of the index said of the report “There are a lot of dangers out there, but housing is as affordable

as it's been in 20 years. I don't see a very rapid recovery, but I think we've seen the bottom".

Some economists expect home prices to fall further due to rising unemployment and foreclosures, a tight lending environment, and the expiration this month of the tax credit for first-time homebuyers (although Congress may extend and even expand it).

Personally, while I don't know if real estate has started a sustainable recovery, I think the affordability (due to the dramatic drop in prices and very low mortgage rates) combined with a shrinking supply of homes for sale, make it likely that real estate will no longer be a drag on the economy.

3. *Business Spending:* Businesses have pared their outlays for equipment and software so deeply that some catch-up spending is necessary (such spending rose 1.1% in the most recent quarter). Furthermore, economists predict the restocking of depleted inventories is expected to help sustain the recovery in the coming months. This is because after slashing inventories at a record pace in the second quarter, businesses further reduced them in the third quarter. With inventories at rock-bottom levels, even the smallest increase in demand probably will prompt factories to boost production.

More significantly, job gains may not be far off. During the third quarter companies experienced a huge productive gain of 6% as payrolls declined 3% and GDP rose 3.5%. Productively growth at such a high rate is very hard to maintain. It eventually strains existing employees and facilities, and businesses have to add workers and equipment. Eventually, rising employment will be necessary for a sustainable economic recovery.

New MAM Web Site

Last Monday we went "live" with the new MAM Web site (www.mamportfolios.com). I am very excited about the value the Web site offers for clients. Below are a few comments:

1. *Weekly Update:* Each weekend (or no later than Monday morning), we will send clients a 1-page "Weekly Update" of the performance of the stock market for the week just ended. The email will include links to articles to provide more detailed stock market and economic updates. We have the capacity to send the Weekly Update to 1000 email addresses. Please let me know if you know of anyone who would be interested in being added to the subscriber list.
2. *MAM Monthly Newsletter of Articles:* The MAM Web site contains a list of financial articles (see the "Financial Articles" screen for "Featured News", "Financial Briefs" and "Articles of Interest"). Each month I plan to add new articles and send a 1-page email to clients providing a summary of three or four of the articles. To read any of the articles in full, click on the article link within this monthly email. We can also add non-MAM clients to the subscriber list for this email.
3. *Weekly Update of Portfolios:* As in the past, once a week (generally on Fridays) we will upload to the "Portfolio Reports" section of the client Vault the most recent positions and prices for your portfolio(s). The performance section of "Portfolio Reports" will be updated once a month (just after month-end).
4. *Portfolio Center Reports:* Each month we will also upload the month-end reports from our portfolio management system. These are the reports we have been mailing quarterly

to clients. There reports can be found on the “Unread Files” screen of your Vault. Once you have viewed the reports for an account, you can access it again on the “My Documents” screen. Click on “Investments”, “Portfolio”, “Q4 2009” and then select the specific account.

To reduce the amount of paper received, some clients may prefer to access these reports in their Vault, rather than have us mail these at quarter end. Please let me know if you would no longer like to have your quarterly report mailed.

5. *Ability for Clients to Upload Documents to Their Vault:* Clients now have the ability to upload documents to their personal vault. Examples of such documents include wills, Trusts, and tax returns. For instructions of how to load documents to your personal vault, please see the “Instructions to mamportfolios.com Vault” document which I emailed last week.

If you would like to have one of us further explain how to use the new MAM Web site (including a “walk-through”), please email (steve@mamportfolios.com, billy@mamportfolios.com, or marilyn@mamportfolios.com) or call (650-610-9540). Furthermore, I would appreciate receiving your feedback regarding the new web site. In particular, what features have you found most useful?

Please email or call if you have questions or would like to discuss your portfolios or any other financial matter.

Sincerely,

Stephen P. McCarthy, CPA, CFP