McCarthy Asset Management, Inc.

Registered Investment Advisor

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Monthly Investment Commentary- April 2008

Stock Market Performance for April: After five consecutive months of losses, the stock market posted the best monthly gain since December of 2003. Unadjusted for dividends, the S & P 500 rose 4.8%, the NASDAQ climbed 5.9%, while the Russell 2000 rose 4.1%. Bonds, commodities and foreign equities also rose for the month.

MAM Performance: For the month, MAM portfolios under performed the S & P 500, with a composite rise of 3.9% (after all fees), versus a rise of 4.9% for the Vanguard Index 500 fund (symbol VFINX) with dividends reinvested. The underperformance for the month was attributed to the impact of bonds funds, which rose much less than stocks.

The five best performing MAM investments for April were Allied Capital (up 9.1%), Dodge & Cox International (up 7.6%), Oakmark Select (up 6.6%), Causeway International (up 6.2%), and Selected American (up 6.1%).

The five worst performing MAM investments for April were PIMCO Total Return (bonds) (up 0.4%), Blackrock Health Science (up 0.7%), PIMCO Developing Local (bonds) (up 1.3%), PIMCO Commodity (up 1.8%), and American Funds Capital Income Builder (up 3.0%).

Year-To-Date Performance: For the first four months of 2008, unadjusted for dividends, the S & P 500 fell 5.6%, the Nasdaq dropped 9.0%, and the Russell 2000 fell 6.5%. MAM portfolios out performed the S & P 500 for these four months, with a composite loss of 3.5% (after all fees), versus a loss of 5.1% for the Vanguard Index 500 fund (symbol VFINX) with dividends reinvested. The 1.5% out performance for the first four months of 2008 was due to the downside protection provided by the bond funds and strong relative performance of the alternative asset investments (PIMCO Commodity and Allied Capital).

Recession- Are We There Yet?

Gross Domestic Product: Technically, the U.S. is still not in a recession. Yesterday the Commerce Department released its estimate of Gross Domestic Product (GDP) for the first quarter of 2008. The GDP—the nation's total output of goods and services—increased at a tepid 0.6% annual rate, the same as in the fourth quarter of 2007. But underlying data—on consumer spending, business investment and construction—paint a picture of a deteriorating economy, one that expanded only because of a rise in exports and a buildup of inventories. Excluding inventories and exports, the economy contracted at a 0.4% rate after increasing 1.3% in the fourth quarter of 2007.

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Many economists feel that the economy is likely to contract in the current quarter. For instance, Morgan Stanley economists predict GDP will decline 2%. Forecasters said that while the Federal stimulus rebate checks should help spur consumer spending, they disagree over how big the impact will be and whether it will occur this quarter or sometime in the second half of 2008.

Housing Market: The housing market is certainly not helping matters. Home-price declines are accelerating nationwide, delaying a turnaround in the housing market. On April 29th it was reported that the Standard & Poor's/Case-Shiller index that measures home prices in 20 major metro areas dropped 12.7% in February from a year earlier—the sharpest decline in the data's two decade history. With a glut of unsold homes and a large number of Americans facing foreclosure, prices are likely to fall further. Tighter lending terms for mortgages and broader weakness in the economy, particularly in the labor market, are also depressing demand.

Interest Rates: Yesterday the Federal Reserve lowered the Federal Funds rate by 0.25% to 2%, which is the lowest it's been since December of 2004. It was the seventh cut in an effort that has dropped the key lending rate by 3.25% since last September. In making the announcement, the Fed hinted this may be the last cut for a while. The Fed said "the substantial easing of monetary policy to date, combined with ongoing measures to foster market liquidity should help to promote moderate growth over time and to mitigate risks to economic activity". Some feel that it would be prudent for the Fed to pause in its interest rate cuts in light of increasing signs of inflation with rising food and energy costs.

Consumer Confidence and the Job Market: On April 28th the Conference Board said that its Consumer Confidence Index, which had plummeted in March, fell again in April. The Index is now at its weakest point since March 2003, just before the U.S. invasion of Iraq. Lynn Franco, director of the Conference Board Consumer Research Center, said in a statement "The continued weakening suggests that not only has the feeble level of growth in the first quarter spilled over into the second quarter, but the economic conditions may have slowed even further". In addition to weakening consumer confidence, a big worry is the employment market, which has been shedding jobs in recent months. The Labor Department is estimated to show another loss of 65,000 when it releases its April report tomorrow. This follows an 80,000 job loss in March.

Predicting the Direction of the Stock Market: How can the stock market perform so well in April in light of the dismal economic reports discussed above? As I wrote in the March 31, 2008 MAM quarterly letter, "While I expect real estate to continue to sink for at least another year, and the economy to not hit bottom until at least this summer, the direction of the stock market is harder to predict. This is because the stock market is forward looking...*Most importantly for investors, stocks usually rebound significantly from the economic bottom.* The S & P 500 index rose 24% on average in the six months following ten of the last eleven recessions."

Will the April stock market recovery continue into May? I don't know. It is clear the economy will continue to weaken. My best guess is the market will remain very volatile for at least the next few months. As I have said before, ignore the short-term gyrations and focus on long-term performance. April's strong showing illustrates once again how futile it is to try to time the market. **My recommended strategy remains the same: invest in light of your risk tolerance and investment time frame, stay diversified, and don't allow your emotions to cloud your judgment by trying to time the stock market.**

Financial Checkup

Phase One: In September of 2005 I introduced the Net Worth Analysis (NWA), which was designed to track a client's Invested Assets, which are assets that can generate income to replace earned income. Accumulating sufficient Invested Assets is the key to financial independence. The NWA spreadsheet is the heart of a financial plan. It helps determine whether a client is financially on track to retire comfortably. Since its introduction, we have completed the initial NWA for 105 clients and at least one annual update for 60 clients.

Phase Two: I am now introducing the second phase of our financial planning services, "The Financial Checkup". Like the NWA, the Financial Checkup is an Excel template that I have developed. It is intended to be the next step after the NWA is completed and is designed to address a variety of financial planning concerns including retirement planning, life insurance, disability insurance, long-term care, debt management, education planning, and estate planning. The Financial Checkup is not a comprehensive financial plan. It is a tool to gather information regarding these areas, with the result being a three to four page report that will make specific individual recommendations pertinent to a client's financial situation. Whereas a comprehensive financial plan can address these areas through a multi-decade cash flow projection, the Financial Checkup is more like your annual physical, where your doctor evaluates your health. If she uncovers anything of concern, you are sent to a specialist or lab for further testing.

Phase Three: The third phase of our financial planning services will be the introduction of a comprehensive financial plan for certain specific clients, utilizing our new financial planning software which can provide a detailed analysis of a client's situation. After testing three of the most popular financial planning software packages, we recently purchased the Money Tree package. Utilizing data from the NWA and Financial Checkup, Money Tree allows us to run detailed retirement and other analysis for those clients who need it.

Cost: We do not charge MAM clients for the creation of a Net Worth Analysis and I do not plan to charge for the "Financial Checkup". It remains to be determined whether and how much we will charge for financial plans generated with the Money Tree software. Financial planners typically charge $2000 or more for such plans. We need to spend more time with the software to better determine the time required to generate such detailed financial plans.

Comprehensive Plan Needed? Although I may change my thinking as we work with Money Tree software, at this point I feel that for many clients the NWA and Financial Checkup will be sufficient, and a detailed comprehensive plan will not be necessary.

Next Step: We will initially send the questionnaire for the Financial Checkup to those clients for whom we are updating their NWA this month. **If you are interested in having us prepare the Financial Checkup for you and you don't want to wait for the annual update to your NWA, please send me an email.**

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

Sincerely,

Stephen P. McCarthy, CPA, CFP