McCarthy Asset Management, Inc.

Registered Investment Advisor

May 2, 2011

Monthly Investment Commentary- April 2011

Stock Market Performance for April: April was another strong month for the stock market. Unadjusted for dividends, the S & P 500 rose 2.9%, the NASDAQ climbed 3.3%, the Russell 2000 rose 2.5%, and the international equity index MSCI EAFE climbed 5.9%. Bonds, as represented by the Barclay's U.S. Aggregate Index, rose 1.3% for the month.

MAM April Performance: MAM portfolios slightly underperformed the S & P 500 for the month. Excluding the "very conservative" portfolios (which rose 1.8%), MAM portfolios rose 2.8% (after all fees), versus a rise of 3.0% for the Vanguard Index 500 fund (symbol VFINX) with dividends reinvested. While MAM portfolios benefited from international stocks outperforming U.S. stocks (due to the continued decline in the U.S. dollar) and the strong performance of the Blackrock Health Science fund (up 5.6%), they underperformed the S & P 500 due to their bond allocation.

Year-To-Date Performance: For the first four months of 2011, unadjusted for dividends, the S & P 500 rose 8.4%, the NASDAQ climbed 8.3%, the Russell 2000 rose 10.4%, and the international equity index MSCI EAFE climbed 8.4%. Bonds, as represented by the Barclay's U.S. Aggregate Index, rose 1.7% for the year-to-date. Excluding the "very conservative" portfolios (which rose 4.0%), MAM portfolios rose 6.7% (after all fees), versus a rise of 9.0% for the Vanguard Index 500 fund (symbol VFINX) with dividends reinvested.

Stock Market- Up 100% in 26 Months

The S & P 500 has now doubled from the low it reached on March 9, 2011. Despite this rise, the S & P 500 is still off nearly 13% from its October 9, 2007 high. Still a 100% rise in just over two years was probably the last thing investors were expecting in March of 2009 when the economy and financial events looked so dire. In fact, many investors panicked and liquidated their stock investments during the financial crisis. While this probably felt like the sensible thing to do at the time, it was a very expensive mistake as those investors probably missed most or all of the dramatic gains that occurred early in the recovery. I think it will be interesting to revisit some of the comments I wrote during the financial crisis. My goal with this is to help educate my clients in the folly of trying to time the stock market and avoid falling victim to making rash emotional decisions related to their investments:

> *From February 2009 Monthly Investment Commentary:* "Just when you hoped it couldn't get much worse, it did. This past month was the second worst February on record for the S & P 500 (1933 was slightly worse). Furthermore, the 18.6% drop in the S & P 500 for the first two months of 2009 is now the worst on record (beating out 1933 when the market fell 17.9% for the first two months). Let's hope the historical comparison to 1933 continues as the good news is that the stock market ended up 46.6% for all of 1933! While I am not predicting that kind of recovery for 2009, the further the market falls, the greater it will eventually recover."

3 Lagoon Dr, Suite 155, Redwood Shores, CA 94065, (650) 610-9540 Fax (650) 610-9541;
e-mail: steve@mamportfolios.com Web site: mamportfolios.com

From the First Quarter 2009 MAM Letter: "In fact, so many have fled the stock market that by early March, cash in CDs, savings accounts and money market accounts was at a record level relative to the value of the stock market. As I have previously discussed, market timing moves like this have caused the average investor to dramatically underperform the stock market averages. *A big challenge for those who sold their equity investments is when to buy back in?* Almost by definition most investors will reinvest when the market is much higher than when they sold. This is because emotionally, it is easier to invest in stocks after the market has performed well."

From April 2009 Monthly Commentary: "Since the March 9th low to the April 30th close, the S & P 500 has risen 29.0%. I imagine that this rise occurred at a time when it was least expected by investors as most of the economic reports in February and early March were fairly dire. This is a trait of the stock market as it often does what is least expected. It makes successful timing of the market incredibly difficult. While six weeks ago it probably felt emotionally like a good time to get more conservative, it was probably a great time to get more aggressive. Since I think it is too difficult to try to time these market lows, I think it is critical to provide enough downside protection to allow investors to "hang in there" during the market downturns. For those investors who have found it very difficult to endure this bear market, my recommendation for them is to be less aggressive in their asset allocation. Given the strong stock market of the last seven weeks, a temporary pullback may be healthy. A rise that is "too sharp and too fast" can leave stocks vulnerable to a sharp correction. As the financial crisis continues to subside and the economy shows signs of improvement, I am cautiously optimistic that the general trend will be up for stocks. What gives me more reason for hope is the tremendous amount of cash parked in CDs, savings accounts, and money markets earning very little. Over time, I expect that a significant portion of this money will eventually be invested in the stock market."

Stock Market Outlook- Reasons for Continued Optimism

Now that the stock market has recovered most of its losses from late 2007 through early 2009, some investors may be wondering whether now is a good time to "take some money off the table" by selling stocks. My feeling is that, while the easy market gains have already occurred, I think the stock market recovery is likely to continue. Here are some reasons why I remain "cautiously optimistic":

1. Self-Sustaining Economic Growth: We are now seeing what is expected as an economic expansion becomes mature. Rapid gains seen at the beginning of a recovery, especially after the severe recession we had, cannot be sustained indefinitely. However, the recent economic data continues to point to solid growth. The Index of Leading Economic Indicators rose 0.4% in March, marking the ninth-straight monthly increase, while manufacturing surveys pointed to a continued strong growth. The preliminary First Quarter 2011 GDP report, though, was disappointing with growth slowing to an 1.8% annualize rate from the 3.1% rate seen in the previous quarter. It is likely that economic growth should rebound at least somewhat in coming quarters.

   The strength of this economic expansion will be very dependent on the extent to which the job market continues to recover. A recent survey by Ned Davis Research showed that CEO confidence is at multi-year highs (best since second quarter of 2004). In fact, a seldom mentioned, but nonetheless interesting job indicator with the acronym of JOLTS (Job Opening and Labor Turnover Survey) showed job openings jumped to 3.1 million at the end of February from 2.7 million the previous month and up 46% from the low seen in July 2009.

2. Corporate Earnings: So far Q1 earnings reports have generally been very good. According to Standard & Poor's, with 75% of the companies having reported, profits for companies in the S & P 500 are coming in 26% better than a year ago. This would be the sixth consecutive quarter of year-over-year double digit earnings growth, with each quarter's growth less than the previous quarter. Overall, however, earnings have recovered to reach pre-recession levels, and are set to post a record for operating earnings (exceeding the old record reached in 2006). This earnings growth is not just from cost-cutting. According to Howard Silverblatt, Senior Analyst at Standard & Poors, for the 1st quarter of 2011, the S & P 500 companies are expected to show the first double-digit gain in year-over-year quarterly sales since March 2006. Furthermore, cash held by the S & P 500 companies are expected to set its ninth consecutive quarterly high. The strong financial condition of corporations combined with rising sales bode well for the continued employment growth.

3. Low Interest Rates: The economy will continue to benefit from low interest rates as consumers and companies are able to borrow for less. Meanwhile, near-low record interest rates continue to motivate investors to shift funds out of CDs and savings accounts and into stocks, particularly those that offer a good dividend yield.

There is always the risk that an unexpected geo-political event could cause a temporary sharp drop in the stocks. While I think the news last night of the capture and killing of Osama Bin Laden was welcome, in the short-term there is great risk of Al Qaeda launching revenge attacks. Of even greater concern is the continued unrest in the Middle East. As I mentioned in the February Monthly Commentary, I am focused on Saudi Arabia. As long as that country remains stable, I don't think oil prices are likely to spiral out-of-control.

Perspective on U.S. Fiscal Situation

On April 18th Standard & Poors issued a negative long-term outlook on U.S. debt, saying the potential for a prolonged stalemate over how to deal with budget shortfalls increases the chance of a downgrade of the nation's AAA bond rating in the next two years unless the issues are addressed. The fiscal-budget actions to address the deficit so far have not been meaningful. The recent budget deal between Congress and President Obama cut nearly $40 billion in spending, but reduced the burgeoning federal deficit by only a small fraction.

For the first time that I can remember, there is starting to be meanwhile political debate in the public arena about how to solve the unsustainable trajectory of the U.S. deficit. For instance, recently Congressman Paul Ryan unveiled his plan called "A Roadmap for America's Future", which calls for radical changes to Medicare, among other provisions.

Clearly, something will need to change, or eventually America will be faced with unmanageable deficits. The federal government has been running a fiscal deficit since 2001, the last year that the nation's fiscal budget was balanced. Since then, federal debt has risen to 52% of gross domestic product (GDP) from 33%. According to an 8/31/10 congressional Budget Office report, under current policy, federal spending is projected to continue increasing faster than revenues throughout the next decade, causing deficits and outstanding debt levels to soar. By 2020, the nation's debt is projected to rise to approximately 90% of GDP. Without changes, longer-term, the situation will probably get worse. By 2025, the government's total revenue may only cover Medicare, Medicaid, Social Security, and the cost of interest payments on its debt. All other government expenditures, such as military spending, transportation and homeland security, would need to be paid for with borrowed funds if new policy measures aren't enacted.

While it is too early to predict what will happen, for the first time I have some optimism that politicians will take a long-term view and enact radical reform that will address our long-term fiscal problems. While I don't expect anything significant to get passed before the next Presidential election, I do hope for there to be meaningful debate and discussion of what steps need to be taken to keep America fiscally sound for the long-term.

Enclosed is an interesting article from Ronald W. Roge, a nationally recognized New York based, fee-only wealth manager. In the article, Mr. Roge proposes five recommendations to help America create and sustain a budget surplus. While you probably won't agree will all of his recommendations, I think his intriguing suggestions are a good start for us to think creatively about how we can achieve the goal of the U.S. getting on a fiscally-sound footing.

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

Sincerely,

Stephen P. McCarthy, CPA, CFP