McCarthy Asset Management, Inc.

Registered Investment Advisor

September 2, 2005

Monthly Investment Commentary- August 2005

Stock Market Performance: For August the stock market posted small losses. For the month, the S & P 500 fell 1.1%, the Nasdaq dropped 1.5%, and the Russell 2000 fell 1.9%. Foreign stocks and bonds rose, while REITs fell.

MAM Performance: For the month, MAM portfolios performed well compared to the S & P 500, with a composite return of 0.3% (after all fees), versus a drop of 0.9% for the Vanguard Index 500 fund (symbol VFINX) with reinvested dividends.

The five best performing MAM mutual funds were PIMCO Commodity (rise of 9.5%), Artisan International Small Cap (rise of 3.9%), Dodge & Cox International Stock (rise of 3.2%), Oakmark International Small Cap (rise of 2.5%), and Causeway International (rise of 2.0%).

The five worst performing MAM mutual funds were: Cohen & Steers REIT (decline of 3.8%), Bjurman Micro Cap (decline of 3.8%), Century Small Cap (decline of 2.2%), Artisan Small Cap (decline of 1.9%), and Oakmark Fund (decline of 1.7%).

For the first eight months of 2005, unadjusted for dividends, the S & P 500 rose 0.7%, the Nasdaq fell 1.1%, and the Russell 2000 climbed 2.3%. *For the year-to-date, MAM portfolios returned a composite 4.3% (after all fees), versus a rise of 1.9% for the Vanguard Index 500 fund (symbol VFINX) with reinvested dividends.*

Impact of Hurricane Katrina: My heart and prayers go out to the victims of Hurricane Katrina. It is difficult to imagine the emotional pain that the residents of New Orleans must be experiencing. In addition to the human toll, there will be a large economic toll. As the vast destruction wrought by Hurricane Katrina became apparent on Tuesday, economists are predicting the disaster could stunt America's growth in the short term and cost $25 billion in insured losses plus $50 billion in uninsured losses. The forecasts, if accurate, would make Katrina one of the costliest natural disasters in the nation's history.

The economic impact of Katrina could be particularly significant because it has affected the U.S.'s energy supply. This comes at a time when oil prices were already close to a record high. Although it is still early to predict, at least one economist has reduced his growth forecast for the nation's gross domestic product for the remainder of 2005 to 3.6%, down from his prior forecast of 4.0%.

The stock market received a boost on Wednesday, August 31st, when one Federal Reserve governor predicted that the Federal Reserve may end its interest rate hikes sooner, to offset the economic impact of the hurricane.

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

Outlook for the Stock Market: Despite the steady rise in oil prices, continued Federal Reserve interest rate hikes, and the economic impact of Hurricane Katrina, I continue to be cautiously optimistic, and still feel that stock prices could rise moderately for 2005. The economy has continued to perform well, and corporate earnings growth is still very strong. I intend to be proactive though, and if necessary, I will take defensive steps within the portfolios if it appears that the economy will be headed for a pronounced slowdown.

Tracking Your Invested Assets: I have found that the most common financial question that my clients ask is, "Am I on target to be able to retire comfortably?" *To answer that, you must realize that accumulating sufficient invested assets is the key to achieving financial independence.* Invested assets are your financial assets (taxable and retirement) and rental real estate. These are the assets that can produce income. I exclude the equity in your home (since you need somewhere to live). *To become financially independent, you need to build your invested assets to a level where they can generate sufficient income to replace your earned income.* How much invested assets are enough? The actual amount depends on your source of other income, your level of living expenses, your life expectancy, the rate of return you will earn from your investments, and the future rate of inflation. Depending on these factors, it could be between one and five million dollars.

For the last fifteen years, I have used an Excel spreadsheet to track the growth in my invested assets. I update it each January with the final numbers for the prior year. On the report I display three years of history and generally three or four years of projections. Therefore I can get a quick view of where I have come from and where I expect to be going. What I focus on are the numbers near the bottom of the sheet, "Invested Assets" and "Change in Invested Assets".

I have attached to this email a sample version of the Excel template. I have made up numbers for the sake of illustration. This relatively simply one-page spreadsheet is the heart of a financial plan. Once you have obtained two to three years of history, you can measure your progress. In addition, by extending the calculated columns far enough into the future, you can get a rough feel for when you will be financially independent. In my spreadsheet, the columns for the future assume a 7% annual return from stocks and 3% from real estate.

I would like your feedback about a new service I am contemplating. In the past I offered to provide this template to clients. I know that some of you have found it useful. However, I imagine that the vast majority of you are not going to take the time to tailor the spreadsheet to your personal situation. Therefore, for clients with MAM-managed assets above a "to-be-determined level", I am thinking of providing, at no cost, our services to update this spreadsheet once a year with your own information. We will obtain the needed data by asking you to complete a questionnaire listing the current value of your assets and liabilities. We may even post your updated spreadsheet to your personal pages on our Web site. This way you can have ready access to the information.

Please email me if you would be interested in such a service. At this point, I am only gauging the interest of clients.

Schwab Bank Line of Credit: Last month Joanie and I refinanced our home equity line of credit for no cost through Schwab Bank. We were able to reduce the interest rate from "prime only" to "prime minus 0.75%". I mention this, not because McCarthy Asset Management receives compensation from Charles Schwab & Co. for bank referrals (we don't), but because I feel it was a very good deal. For more info, check out http://schwabbank.com.

Please call or email (steve@mamportfolios.com) if you have any questions or would like to discuss your portfolio(s). Also, please let me know if you may be interested in the potential new service with the Excel spreadsheet.

Sincerely,

Stephen P. McCarthy