McCarthy Asset Management, Inc.

Registered Investment Advisor

September 1, 2011

Comments from Federal Reserve Chairman Ben Bernanke

Last week the Federal Reserve met in Jackson Hole, Wyoming. After a similar meeting one year ago, the Fed introduced a program termed "Quantitative Easing 2", which was credited with being a significant contributor to last year's stock market recovery. Last Friday, Fed Chairman Bernanke made a widely-anticipated address where he made a number of comments regarding the Fed's view of the current state of the economy. Based on the sharp rise in the stock market that day, investors responded well to his comments. Here are excerpts from the speech:

"It is clear that the recovery from the crisis has been much less robust than we had hoped. From the latest comprehensive revisions to the national accounts as well as the most recent estimates of growth in the first half of this year, we have learned that the recession was even deeper and the recovery even weaker than we had thought; indeed, aggregate output in the United States still has not returned to the level that it attained before the crisis. Importantly, economic growth has for the most part been at rates insufficient to achieve sustained reductions in unemployment, which has recently been fluctuating a bit above 9%. Temporary factors, including the effects of the run-up in commodity prices on consumer and business budgets and the effect of the Japanese disaster on global supply chains and production, were part of the reason for the weak performance of the economy in the first half of 2011; ***accordingly, growth in the second half looks likely to improve as their influence recedes.*** *However, the incoming data suggest that other, more persistent factors also have been at work…*

*"Consequently, although we expect a moderate recovery to continue and indeed to strengthen over time, the Committee has marked down its outlook for the likely pace of growth over coming quarters…*In light of its current outlook, Bernanke reiterated the recent Fed announcement that they expect to keep the Federal funds rate between 0% and 0.25% at least through mid-2013.

On the long-term, Bernanke commented *"With respect to longer-run prospects, however, my own view is more optimistic. Although important problems certainly exist, the growth fundamentals of the United States do not appear to have been permanently altered by the shocks of the past four years. If may take some time, but we can reasonably expect to see a return to growth rates and employment levels consistent with those underlying fundamentals…*

"There have been some positive developments over the past few years, particularly when considered in the light of economic prospects as viewed at the depth of the crisis. Overall, the global economy has seen significant growth, led by the emerging-market economies. In the United States, a cyclical recovery, though a modest one by historical standards, is in its ninth quarter. In the financial sphere, the U.S. banking system is generally much healthier now, with banks holding substantially more capital…In the broader economy, manufacturing production in the United States has risen nearly 15% since its trough, driven substantially by growth in exports. Indeed, the U.S. trade deficit has been notably lower recently than it was before the crisis, reflecting in part the improved competitiveness of U.S. goods and services. Business investment in equipment and software has continued to expand, and productivity gains in some

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

industries have been impressive, though new data have reduced estimates of overall productivity improvement in recent years. Households also have made some progress in repairing their balance sheets—saving more, borrowing less, and reducing their burdens of interest payments and debt...

"Notwithstanding the trauma of the crisis and the recession, the U.S. economy remains the largest in the world, with a highly diverse mix of industries and a degree of international competitiveness that, if anything, has improved in recent years. Our economy retains its traditional advantages of a strong market orientation, a robust entrepreneurial culture, and flexible capital and labor markets. And our country remains a technological leader, with many of the world's leading research universities and the highest spending on research and development of any nation."