

# *McCarthy Asset Management, Inc.*

Registered Investment Advisor

January 3, 2011

Dear MAM Client,

Happy New Year! I hope that you and your loved ones had wonderful Holidays. December is quarter-end, so I am keeping this month's Commentary short. We will be sending out quarterly reports this week. In the report I will discuss:

1. Stock Market & MAM Performance for the 4<sup>th</sup> quarter and full year 2010
2. New MAM Personnel: Introduction of Alexey Bulankov and Anthony Bertolacci
3. 2010 Tax Relief Act
4. Outlook for the U.S. Economy
5. Stock Market Outlook
6. Most Recent Portfolio Repositioning- Further Focus on Dividend-Paying Stocks

**2010 Performance:** Full year results for 2010 were very good. Unadjusted for dividends, the S & P 500 rose 12.8%, the Nasdaq climbed 16.9%, the Russell 2000 jumped 25.4%, and the international equity index MSCI EAFE inched up 4.9%. Bonds, REITs and commodities all rose for the year. Excluding the "very conservative" portfolios, the composite return of assets in MAM portfolios was a rise of 10.7% (after fees) versus a rise of 14.9% for the Vanguard Index 500 Fund (symbol VFINX) with dividends reinvested. The 2010 composite return for assets in the "very conservative" portfolios was a gain of 7.7%.

**Increase Equity and Reduce Bond Allocation in Portfolios?** Here's an excerpt from the quarterly letter we will be sending this week. In it, I am asking to hear from clients who are comfortable in taking on a little more risk with their portfolio(s): "In the December portfolio repositioning, we reduced the allocation to those parts of the bond market that are most vulnerable to rising interest rates (i.e. Treasuries and high-duration bonds). Despite taking these steps, if as I expect the stock market continues to recover in 2011, MAM portfolios are likely to under perform the S & P 500 due to their significant bond allocation. **If you are comfortable with taking on more volatility with your portfolio, please call or email and we can discuss whether I should shift part of your bond allocation to stocks.** I am hesitant to adjust all portfolios to a more aggressive allocation because I feel many clients are still concerned about another possible downturn in the stock market." Please let me know if you are comfortable will taking on a little more risk with your portfolio.

**2010 Tax Relief Act:** Attached to this email is a short video from Forefield, Inc. which provides a 4-minute overview of the major tax law that was passed last month.

**Estimated Tax Payments:** For those of you who pay estimated payments, I want to remind you that the due date for the fourth quarter payment is January 18, 2011.

We have already uploaded to the MAM Web site ([www.mamportfolios.com](http://www.mamportfolios.com)) the December 2010 month-end values and year-to-date performance for client portfolios.

Please let me know if you have any questions or comments.

*Steve McCarthy, CPA, CFP*

encl: video overview of 2010 Tax Relief Act