

McCarthy Asset Management

Registered Investment Advisor
Certified Public Accountant
Certified Financial Planner

March 2, 2005

Monthly Investment Commentary- February 2005

Stock Market Performance for February: With the exception of technology stocks, the stock market performed well for the month--the S & P 500 rose 1.9%, the Nasdaq fell 0.5%, and the Russell 2000 rose 1.6%. Foreign stocks, bonds, and REITs showed small gains.

MAM portfolios outperformed all of these indices with a composite return of 2.7% for the month. The three best performing MAM mutual funds were PIMCO Commodity (rose 6.6%), Artisan Small Cap Value (4.9%), and Oakmark International Small Cap (4.9%). The three worst performing MAM mutual funds were TCW Galileo Select (down 1.7%), American Amcap (up 0.4%), and Metropolitan West (up 0.7%).

For the first two months of 2005, unadjusted for dividends, the S & P 500 fell 0.7%, the Nasdaq dropped 5.7%, and the Russell 2000 fell 2.8%. MAM portfolios weathered the first two months well, with a composite positive return of 0.4% (net of all fees).

Economy Doing Well: On February 25th, the Commerce Department reported that U.S. gross domestic product (GDP) grew at a 3.8% rate in the fourth quarter of 2004. This is significantly faster than the 3.1% rate they initially estimated. This compares to a 4.0% rate in the third quarter. For all of 2004, the economy expanded 4.4%, the fastest pace since 1999. Currently, economists expect that economic growth will average a solid 3.0% to 3.5% in 2005.

Outlook for the Stock Market: As I mentioned in last month's report, I feel that the stock market should perform reasonably well this year. Due to the strong market returns of the past two years, however, I am more cautious than I was last year. I expect returns for 2005 to be less than 2004 (when the S & P 500 rose 10.9%). Of course, I wouldn't mind being pleasantly surprised on the upside. I continue to feel the best way to invest in equities is through a portfolio that is diversified among various asset classes. Equally important, the asset allocation mix should be adjusted in light of the changing dynamics in the stock market.

Portfolio Changes: I generally reposition portfolios twice per year unless market conditions warrant additional action. The last repositioning was done in November of 2004. I expect to make the next portfolio adjustments this May or June.

For accounts with cash to invest, I invest on a monthly basis until the account is fully invested. The recent purchases reflect my current thinking and are a good indicator of what will be done with the next repositioning. Since last November, I continue to shift further into large-cap stocks while decreasing the weighting in small-cap stocks. I continue to increase the weighting in international equities. Given the strong performance of REITs during the past five years, I

am reducing the portfolio weighting of Cohen & Steers REIT from approximately 4.5% to about 3%. Furthermore, I am increasing the weighting in PIMCO Commodity from between 1.5% to 2.0% to about 3%. I continue to increase the weighting in core funds (American Amcap, American Mutual, Capital World Growth & Income, Dodge & Cox Balanced, Income Fund of America, Selected American, and iShares Dow Jones Select Dividend). I continue to underweight technology stocks.

Website Training from Billy Alhorn: One of the areas that I planned to get Billy involved with when I hired him last August was to help train clients in the use of our website (“mamportfolios.com”). This will leverage the experience he acquired working at Charles Schwab with retail clients. The interest among clients in website training was made clear with the “Client Satisfaction Survey” sent out last year. In that survey, many of you indicated an interest in learning more about how to use the website.

Please call or email Billy (phone 650-610-9542, email: billy@mamportfolios.com) if you would like to have him teach you how to better utilize the website. The following has been written by Billy to peak your interest:

“From time to time, I will be providing you with some educational tips on accessing and navigating through our mamportfolios.com website. Did you know that by choosing the Research Tab from our home page, you gain access to over a dozen analyst reports? You can choose from the ‘**Reuters ProVestor Plus Report**’ which offers extensive company coverage of over 7,900 companies, specializing in hard-to-find small cap and penny stocks to ‘**Vickers Insider Trading Report**’ which identifies when insiders bought or sold stock and whether their trades may have influenced subsequent trends. This same comprehensive research can be found on the mutual fund side as well.”

“From our website, you can add your existing online outside accounts allowing you to view them alongside your existing MAM Portfolio under one umbrella. For example, this may include a checking or savings account held at Bank of America or a mortgage with Citibank. These are just a few of the navigational tools available through our website.”

“I encourage your call or email as I would be happy to help navigate you through the mamportfolios.com website and review the features and benefits our site has to offer. I can assist you with “log on” and “how-to’s”, as well as “adding on” financial accounts outside our network. Our goal is to provide you with the education and resources you may need or find helpful in becoming a more successful investor.”

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

Sincerely,

Stephen P. McCarthy