

McCarthy Asset Management, Inc.

Registered Investment Advisor

August 3, 2005

Monthly Investment Commentary- July 2005

Stock Market Performance for July: For the month of July, the stock market posted its best monthly gains since December of 2003. For the month, the S & P 500 rose 3.6%, the Nasdaq climbed 6.2%, and the Russell 2000 rose 6.3%. Foreign stocks also rose, while bonds were flat.

MAM Performance: For the month, MAM portfolios performed comparable to the S & P 500, with a composite return of 3.6% (after all fees) versus a rise of 3.7% for the Vanguard Index 500 fund (symbol VFINX) with reinvested dividends.

The five best performing MAM mutual funds were North Track PSE Technology (rise of 7.9%), Bjurman Micro Cap (rise of 7.9%), Cohen & Steers REIT (rise of 7.4%), Artisan International Small Cap (rise of 6.8%), and Oakmark International Small Cap (rise of 6.4%).

The five worst performing MAM mutual funds were: Hussman Strategic Growth (rise of 0.2%), Loomis Sayles Bond (rise of 0.4%), Metropolitan West Strategic (rise of 1.1%), Income Fund of America (rise of 1.8%), and Pioneer High Yield (rise of 2.0%).

For the first seven months of 2005, unadjusted for dividends, the S & P 500 climbed 1.8%, the Nasdaq rose 0.5%, and the Russell 2000 climbed 4.3%. For the year-to-date, MAM portfolios returned a composite 4.0% (after all fees), versus a rise of 2.8% for the Vanguard Index 500 fund (symbol VFINX) with reinvested dividends.

Economy Looking Good The economic numbers released this past month for the second quarter of 2005 suggest that the economy is continuing to perform well:

- Gross Domestic Product growth of 3.6% matching the first quarter's pace.
- Real final sales growth of 4.3%, up from 3.5% from the first quarter.
- Personal spending edged up 3.9% from 3.5%.
- Monthly payroll gains averaged 181,000 (about the same as in the first quarter and in all of 2004).

While the continued growth in the economy is good news for the economy, it does pressure the Federal Reserve to continue its pattern of 0.25% increases in the discount rate.

Corporate Earnings: 75% of the companies in the S & P 500 have reported quarterly results through the end of July. Of those, 69% have beaten expectations, 15% have equaled forecasts, and 15% performed below expectations. Normally, about 59% of companies exceed company guidance according to Thomson First Call. Thomson also says that so far, second quarter earnings have climbed 11.1% over the same period a year ago, up from the pre-season estimate of an 8.8% gain.

If second quarter earnings hold, this would make the 13th consecutive quarter that S & P 500 operating earnings posted double-digit percent gains. Currently, analysts expect the double-digit earnings growth to continue in the third and fourth quarters of this year.

Outlook for the Stock Market: I continue to be cautiously optimistic, and feel that stock prices could rise moderately for 2005. Good performance of the economy and strong corporate earnings growth lean toward the positive. As a result of the earnings growth, companies in the S & P 500 now trade at about 15 times expected earnings for the next 12 months, which is just a little above the historical average. On the negative side, record high energy prices and continued Federal Reserve interest rate increases could lead to lower economic growth.

Portfolio Repositioning: Portfolios for clients with managed assets above \$150,000 were repositioned in June. Included in the rebalancing was the first increase in five years in technology exposure with the initial purchase of the North Track PSE Tech 100 fund and the American Growth Fund. Although one month is a very short period to measure results, the North Track PSE Tech 100 tied Bjurman Micro Cap as the top performing MAM fund with a 7.9% rise for July. American Growth Fund rose 4.8% for the month.

After the recent repositioning, MAM portfolios remain underweighted in technology stocks relative to the S & P 500. While it is possible I may further increase technology exposure with the next repositioning later this year, I prefer to remain defensive to protect against a possible downturn in the market.

Further Increase in MAM Minimum Asset Level?: Managed assets are continuing to grow. I am now contemplating increasing the minimum level to \$400,000 for new clients (up from \$350,000). The earliest effective date for this change will be December 31, 2005. My goal is to keep the number of MAM clients to 200 or less. I mention this in advance in case you know of someone who may be interested in our services.

Please call or email (steve@mamportfolios.com) if you have any questions or would like to discuss your portfolio(s).

Sincerely,

Stephen P. McCarthy