

McCarthy Asset Management, Inc.

Registered Investment Advisor

July 1, 2011

Dear MAM Client,

Since June is quarter-end, I am keeping this month's Commentary short. Next week we will be mailing out your quarterly report. Although I have not yet written the quarterly letter, I expect it will include:

- My mid-year economic update/outlook for the U.S. economy and the stock market
- Comments regarding my attendance at the 2011 Financial Planning Association's NorCal Conference.
- Residential Real Estate: signs of improvement, especially in Silicon Valley
- Misc. Topics: updating IRA beneficiaries and signing up for eDelivery

Second Quarter Performance: Thanks to a strong 4-day run at the end of June, the stock market recovered to post mixed results for the quarter. *Unadjusted for dividends*, the S & P 500 fell 0.4%, the Nasdaq dropped 0.3%, the Russell 2000 slipped 2.0%, and the international equity index MSCI EAFE rose 0.3%. Bonds, as represented by the Barclays U.S. Aggregate Index, rose 2.3% for the quarter. *Excluding the "very conservative" portfolios, the composite return of assets in MAM portfolios was a gain of 0.6% (after MAM fees), versus a gain of 0.1% for the Vanguard Index 500 Fund (symbol VFINX) with dividends reinvested. The quarter's composite return for assets in the "very conservative" portfolios was a gain of 1.2%.*

Year-to-Date Performance: For the first six months of 2011, unadjusted for dividends, the S & P 500 rose 5.0%, the Nasdaq climbed 4.5%, the Russell 2000 rose 5.6%, and the international equity index MSCI EAFE rose 3.0%. Bonds, as represented by the Barclays U.S. Aggregate Index, rose 2.7% for the six months. *Excluding the "very conservative" portfolios, the composite return of assets in MAM portfolios was a gain of 4.5% (after fees), versus gain of 6.0% for the Vanguard Index 500 Fund (symbol VFINX) with dividends reinvested. The year-to-date composite return for assets in the "very conservative" portfolios was a gain of 3.4%.*

Schwab Yield Plus Settlement: I believe that the Administrator for the Schwab Yield Plus Fund Settlement has just started sending out settlement checks. You may recall that this ultra-short bond Fund was marketed by Schwab (and used by MAM) as a near-money market like fund (its goal was to provide returns above that of a money market fund with only slightly higher risk). At its peak, the Fund was the largest of its kind and had billions in assets. While the Fund had performed as intended for many years, it suffered large losses during the credit crisis due to illiquid investments in mortgage-backed securities.

I estimate that about 40 MAM clients suffered losses from the Fund and will be entitled to a settlement. Because Charles Schwab is not involved with sending the checks, we are not able to find out which clients will receive a payment. If you receive a check and it is payable to your tax-deferred account (e.g. IRA or SEP-IRA), the payment should be deposited into your account to avoid tax consequences. If you endorse the check as

payable to your Schwab account and send it to our office, we will forward it on to Schwab for deposit into your account.

We are still uploading to the client Vault section of www.mamportfolios.com the June 2011 month-end values and performance for portfolios. I hope to have that update completed later today.

Please let me know if you have any questions or comments. Meanwhile, have a happy and safe 4th of July!

Steve McCarthy, CPA, CFP