

McCarthy Asset Management, Inc.

Registered Investment Advisor

December 1, 2005

Monthly Investment Commentary- November 2005

Stock Market Performance: Year-end rally time? If November's sharp rise in the stock market is any indication, then the prospects look good. For the month, the S & P 500 rose 3.5%, the Nasdaq climbed 5.3%, and the Russell 2000 rose 4.6%. Foreign stocks and REITs rose, while bonds and commodities were mixed.

MAM Performance: For the month, MAM portfolios underperformed the S & P 500, with a composite return of 2.9% (after all fees), versus a rise of 3.8% for the Vanguard Index 500 fund (symbol VFINX) with dividends reinvested. Manager selection was a positive contributor to MAM's performance, as 7 of the 12 U.S. equity mutual funds used by MAM outperformed the S & P 500. Asset allocation was the cause of the underperformance. Foreign stocks rose less than U.S. stocks, as all of the foreign funds used by MAM had positive returns that were less than the S & P 500's return. More significantly, all of the bond funds returned less than 1% for the month, while the three worst performing funds were alternative asset funds. In a strong market, I would expect that MAM portfolios, which are diversified among stock, bond and alternative assets funds, to underperform the S & P 500.

For November, the five best performing MAM mutual funds were Bjurman Micro Cap (rise of 8.6%), North Track PSE Technology (5.2%), Marsico Focus (4.9%), American Growth Fund (4.6%), and Cohen & Steers REIT (4.5%).

The five worst performing MAM mutual funds were PIMCO Commodity (drop of 0.2%), Hussman Strategic Growth (drop of 0.2%), Metropolitan West (0.1%), Loomis Sayles Bond (rise of 0.6%), and Income Fund of America (rise of 1.2%)

For the first eleven months of 2005, unadjusted for dividends, the S & P 500 rose 3.1%, the Nasdaq climbed 2.7%, and the Russell 2000 rose 3.8%. *For the year-to-date, the composite return of MAM portfolios was a positive 6.3% (after all fees), versus a rise of 4.8% for the Vanguard Index 500 fund (symbol VFINX) with reinvested dividends.*

Performance of U.S. Economy: Recent economic reports have been good. On November 29th, the Conference Board reported that consumer confidence in November had a reading of 98.9, up from 85.2 in October. Furthermore, on November 30th, the Commerce Department revised upward its estimate of third-quarter economic growth. They said that the third quarter gross domestic product (GDP) rose at a 4.3% annual rate, compared with the prior estimated growth rate of 3.8%. Inflation indicators in the November 30th report were also positive for the quarter, as they were revised modestly lower from the initial report. Consumer prices excluding food and energy, the Federal Reserve's preferred inflation measure, rose at a 1.2% annual rate. This was the lowest core-inflation rate in more than two years.

Outlook for the Stock Market: It's amazing what a difference one month can make in your outlook for the market. One month ago, the U.S. stock market was close to breakeven for the first ten months of the year. November was a strong month with a return of almost 4% and today, the first day of December, the stock market posted strong gains of over 1%. One of my jobs as an investment manager is to avoid being overly influenced by the short-term gyrations in the market. It is human nature to become optimistic as the market rises and pessimistic as it falls. Many investors allow their emotions to cloud their investment decision making.

My feeling is that the market is currently fairly valued. As long as the economy and corporate profits continue to grow, and absent any catastrophic event, the stock market should continue to rise modestly. As I have written for the last two years, I believe we are in a lower return environment, where I estimate the stock market will generate average annual returns of 5% to 7%. I hope to do a little better than this, through the selection of good mutual fund managers and positive asset allocation adjustments.

Part of the value I provide is to adjust portfolios based on changes in the investment environment. Generally, we make these adjustments twice a year. This week we started the most recent rebalancing. We will probably not complete the process until the middle to later part of December. When we adjust your portfolio(s), we will send you a letter and Excel spreadsheet(s) describing the changes. The main focus of the current repositioning is to increase large cap U.S. exposure and reduce small cap U.S. exposure. In addition, a couple of new mutual funds are being purchased, and two are being completely sold.

Tracking Your Invested Assets: So far 81 MAM clients have indicated an interest in having us create a Net Worth Analysis spreadsheet for them. We have sent out questionnaires to 80 of those clients, and have received back 25. So far we have created the spreadsheet for 13 clients. The feedback we have received has been positive. We have been told that the 2-page questionnaire was fairly easy to complete. Although we are currently time-constrained as we rebalance the portfolios, I encourage you to return your questionnaire within the next month. As I get into tax season, my time will become even more limited. Also, if you are interested in this free service, and have not yet notified us, please do so by sending me an email (steve@mamportfolios.com).

Increase in Our Minimum for New Clients: Reflecting the increase in the amount of assets under management, and in the interest of keeping the number of MAM clients at a manageable level, effective January 1, 2006, I plan to raise the minimum amount to become a new client to \$500,000, from the current level of \$350,000. This increase does not impact existing clients who have less than \$500,000.

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

Sincerely,

Stephen P. McCarthy