McCarthy Asset Management, Inc.

Registered Investment Advisor

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Monthly Investment Commentary- November 2009

Stock Market Performance for November: The stock market returned to its winning ways, making it seven positive months out of the last eight. For November, unadjusted for dividends, the S & P 500 rose 5.8%, the NASDAQ climbed 4.9%, the Russell 2000 rose 3.0%, and the international equity index MSCI EAFE climbed 1.8%. Corporate bonds continued to perform well as they rose modestly for the month.

MAM November Performance: MAM portfolios underperformed the S & P 500 for the month. Excluding the "very conservative portfolios" (which rose modestly), MAM portfolios appreciated 3.6%, versus a rise of 6.0% for the Vanguard Index 500 fund (symbol VFINX) with dividends reinvested. The underperformance of MAM portfolios relative to the S & P 500 was primarily due to MAM portfolios being more conservatively invested than the S & P 500. Furthermore, large U.S. stocks (as represented by the 5.8% rise in the S & P 500) significantly outperformed small U.S. stocks (the Russell 2000 rose only 3.0%) and international equities (the MSCI EAFE climbed a modest 1.8%). I do think it is likely that large U.S. stocks will continue to be among the best performing asset classes for the foreseeable future. The addition of the ETF Vanguard Dividend Appreciation to portfolios during last month's repositioning was done to increase large cap U.S. equity exposure in MAM portfolios.

Year-To-Date Performance: For the first eleven months of 2009, unadjusted for dividends, the S & P 500 rose 21.3%, the NASDAQ soared 36.0%, the Russell 2000 rose 16.1%, and the international equity index MSCI EAFE climbed 26.0%. Excluding the "very conservative portfolios", MAM portfolios underperformed the S & P 500 for these eleven months with a rise of 21.7% (after all fees) versus a rise of 24.1% for the Vanguard Index 500 fund with dividends reinvested.

Economic Update

The economy continues to show signs of a modest recovery. Late last month the Commerce Department revised its estimate of GDP growth for the third quarter of 2009 to 2.8%, down from the initial estimate of 3.5%. For the current quarter, most economists think economic growth will be between 2.5% and 3.0% and then weaken to even more moderate growth next year as the impact of the $787 billion stimulus package fades and consumers keep a tight lid on their spending under the strain of high unemployment and hard-to-get credit. The economy should benefit from business spending, though, which is likely to increase in 2010 as inventories are re-stocked and equipment and software are replaced. Exports may also provide a boost due to the weakened U.S. dollar and the recovery in foreign economies.

The biggest concern remains unemployment—or more accurately, underemployment. The official number of 10.2% is understated. Once we count those on furlough, those on reduced time, and those who have given up looking for work, the true unemployment figure is closer to 16%. The hope is for the unemployment rate to peak in the first half of 2010, followed by a return to growth in the U.S. labor market later next year.

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Though the current environment poses very significant challenges to business creation/expansion and employment growth, history shows that negative conditions don't persist forever. Forces often move in counter directions, checking excesses and setting the stage for better times. When confidence improves, businesses will take advantage of abundant and attractively priced labor, low capital costs and excess capacity. Consumers are saving more and while this depresses near term GDP growth, it sets the stage for more sustainable investment and consumption down the road. Additionally, there are signs of recovery in Asia and Europe that will help stimulate demand in the United States.

Stock Market Outlook

While the stock market gains from the March 2009 lows have been impressive, the plunge in the market prior to that was even more dramatic. The S & P 500 fell nearly 57% from its 1565 peak in October 2007 to its low of 677 on March 9, 2009. Since this low, stock prices have soared nearly 60%. I attribute this recovery to three contributing factors:

1. As has happened before in bear markets, especially those that occur during a recession, some investors overreacted which led to panic selling. This caused stock prices to fall much further than they should have. Once it appeared that the economy was not getting worse, stocks started to surge.

2. The expected recovery in corporate earnings also helped. Typically, strong earnings growth occurs as the economy emerges from a recession. As the worst recession since the Great Depression continued to unfold, companies showed a resolve to cut costs. They ran inventories down, reduced capacity and work forces, and produced remarkable productivity gains. Companies are now very lean, and will need only a modest increase in revenues to propel earnings forward.

3. The U.S. government has helped to fuel this rally by reducing short-term interest rates close to 0%. Low interest rates help in two ways. The low cost of financing encourages businesses and consumers to spend and the near 0% rate on savings provides an incentive for investors to shift money out of CDs, savings accounts and money market accounts and into stocks.

The current level of stock prices appears to incorporate fairly optimistic expectations of future economic growth. It remains to be seen whether this growth will occur. My outlook for the stock market continues to be of guarded optimism. I feel that the equity markets are likely to continue to recover, although at a much more moderate pace. While stocks have soared since March, the market is still 30% below its peak from October of 2007. Furthermore, as long as savings rates stay near 0%, I think that investors will continue to move a portion of the tremendous amount of money that remains in cash into the stock market.

I remain cautious with MAM portfolio positioning, though, with most portfolios having an asset allocation that should provide 55% to 70% of the volatility of the S & P 500. I feel that taking on more risk than this is not warranted or necessary at this time. I am concerned that there are still substantial risks to the U.S. economy, particularly due to very high unemployment, potential widespread defaults in commercial real estate, and a possible new wave of defaults for residential mortgages. Furthermore, in this very low interest rate environment, I do not think it is necessary to be aggressive, as I feel that bonds and high dividend paying stocks remain attractive.

Assorted Items

Here are three items I would like to comment on:

1. *Year-End Tax Planning:* As with prior years, I plan to send out a Tax Update Letter later this month. I will have quite a bit to cover as there have been a number of tax law changes this year. In addition, I recently added to the MAM Web site the article "Five Year-End Moves To Cut Your Personal Taxes". To read the article, click for more . .

2. *Portfolio Repositioning:* Generally all portfolios of $100,000 or higher were repositioned in November. As explained in the repositioning letter, the primary purpose of the portfolio adjustments was to add the ETF Vanguard Dividend Appreciation (VIG) to portfolios. I feel that high quality stocks that have a strong record of dividend increases are a compelling investment at this time.

   The current appeal of high quality, dividend paying stocks was articulated very well by Jim Cullen, manager of the Pioneer Cullen Value Fund when he wrote in the most recent Pioneer Perspective: "Since the March of 2009 stock market bottom, companies paying dividends have dramatically underperformed those with no dividends, and also companies with earnings have also dramatically underperformed those with no earnings. This is typical for the early stage of the recovery. However, market history also shows us that eventually long term investors, focusing on fundamentals, have come back in the market and bought companies with earnings and dividends." The Pioneer Perspectives report included a chart which compared the historical performance of S & P 500 companies that pay a dividend to those that don't. Jim wrote "We can see that the highest dividend paying stocks outperformed in recessions and bear markets. Once the recovery started, these same stocks dramatically underperformed for an average of six months. However, after that time, the high dividend stocks resumed their outperformance. It may take longer for these stocks to resume their outperformance this time because the government has provided life support for many of the worst "junk" companies." In addition, I feel the near 0% rate currently being paid on savings also makes dividend paying stocks an attractive investment for investors at this time.

3. *Mortgage Rates:* Fixed mortgage rates have fallen sharply during the last month, matching a record low set last spring. Per Fremont Bank's Web site (www.fremontbank.com), as of today the current rate to do a no-cost refinance to a conforming loan (< $417,000) is 4.99% for 30-years and 4.375% for 15 years. If you have not refinanced yet and your rate is 5.50% or above, I recommend that you look into doing a refinance.

Please email or call if you have questions or would like to discuss your portfolios or any other financial matter.

Sincerely,

Stephen P. McCarthy, CPA, CFP