McCarthy Asset Management, Inc.

Registered Investment Advisor

December 1, 2010

Monthly Investment Commentary- November 2010

Stock Market Performance for November: November was a mixed month for the stock market. Unadjusted for dividends, the S & P 500 slipped 0.2%, the NASDAQ fell 0.4%, the Russell 2000 rose 3.4% and the international equity index MSCI EAFE dropped 5.0%. Bonds and REITs fell over 1% for the month.

MAM November Performance: With the drop in bonds and international equities, MAM portfolios lagged the S & P 500 for the month. Excluding the "very conservative portfolios" (which slipped 0.5%), MAM portfolios fell 0.8% (after all fees), versus a rise of 0% for the Vanguard Index 500 Fund (symbol VFINX) with dividends reinvested.

Year-To-Date Performance: For the first eleven months of 2010, unadjusted for dividends, the S & P 500 rose 5.9%, the NASDAQ climbed 10.1%, the Russell 2000 rose 16.2%, and the international equity index MSCI EAFE fell 2.9%. Excluding the "very conservative portfolios" (which rose 6.9%), MAM portfolios rose 6.2% (after all fees), versus a rise of 7.7% for the Vanguard Index 500 fund with dividends reinvested.

Topics Discussed: The following are the topics discussed in this Monthly Commentary:

1. Changes In MAM Personnel
2. Economic Growth- Accelerating? Stock Market- Just a Pause
3. Tax Law Changes- Left in Limbo
4. Credit for Energy-Efficient Improvements to Your Home Expires 12/31/10

Changes In MAM Personnel

After six years at MAM, Billy Alhorn has resigned to take a position at Franklin Funds, his original employer. Billy played an important role in the growth of MAM. We will miss his positive attitude and valuable contributions and wish him well in his new endeavor.

I am using the personnel changes as an opportunity to expand the services provided by MAM. Part of Billy's job functions (including compliance work and trading) will be taken over by Anthony Bertolacci. Many of you know Anthony, who has worked with me for the last twenty tax seasons. Anthony is excited to be taking a year-round position with MAM. While he will initially work 50% of the time outside of tax season, I expect Anthony to gradually move toward full-time to accommodate the growth of MAM.

For the last two weeks I have been busy interviewing many very qualified candidates to fill the full-time position. I am looking for someone who has the experience and knowledge to create comprehensive financial plans. While the new hire will also work on the Net Worth Analysis' that we prepare for clients, there are situations where a comprehensive financial plan may be needed. Furthermore, I plan to have the new hire involved with conducting educational workshops. I should have more to discuss regarding this with the 4th quarter MAM letter that will be sent early next month.

Economic Growth- Accelerating? Stock Market- Just a Pause

Signs of Economic Growth: A number of economic reports released recently point toward a slight acceleration in economic growth. For instance, last week the government revised upward its estimate of 3rd quarter gross domestic product growth (to 2.5% from an originally reported 2.0%), weekly jobless claims fell to their lowest level in two years, and personal incomes posted a strong gain in October. Furthermore, consumer spending grew by nearly 3%.

A significant report will be issued this Friday when the Labor Department releases the November Jobs Report. A very positive report released by ADP today indicated that the employment outlook may be picking up. ADP reported that the private employers adding 93,000 jobs in November, the biggest in three years. Equally significant, October's gain was revised substantially higher, up to 82,000 new jobs from the 43,000 initial estimate. Although this is positive growth, given the depth of job losses during the 2007-2009 recession, ADP cautioned "Nevertheless, employment gains of this magnitude are not sufficient to lower the unemployment rates, which likely will remain above 9% for all of 2011. Furthermore, given the modest GDP growth in the second and third quarters, and the usual lag of employment behind GDP, it would not be surprising to see several more months of only moderate gains as the economic recovery gathers momentum."

Still Optimistic on the Stock Market: After a strong September and October, the stock market was mixed for November. Recent downward pressure came from a number of sources, including geopolitical risk from the heightened conflict between North and South Korea, the deepening of the European debt crisis with the bailout of Ireland, policy tightening in China, and weakening housing market data. My stock market outlook for the next year remains relatively upbeat. As I indicated in last month's commentary, *I plan to reposition portfolios in December by shifting a small portion of the bond exposure to one or more funds that focus on dividend-paying stocks.* **As I also mentioned last month, please let me know if you would like to have a conversation before I reposition your portfolio(s).**

Tax Law Changes- Left in Limbo

What's next with taxes? Taxpayers should demand to know. Congress has very significant unfinished business related to taxes as it gets ready to adjourn for 2010. I am not optimistic that much will be accomplished and I expect that we will enter 2011 with many questions left unanswered. Here are four of the significant tax issues that remain unresolved:

1. **Alternative Minimum Tax Relief for 2010:** Once again, lawmakers have left a fix for the last minute, but experts say the odds are good it will happen. Absent a fix, the exemption for married joint filers will be $45,000 as opposed to nearly $71,000. *Without the increased exemption, it is estimated that 32 million taxpayers will owe AMT for 2010 versus 5 million for 2009.* This is the most urgent tax issue for Congress to address and I hope that it is resolved before the end of 2010.

2. **Income Tax Cuts:** The Bush tax rates enacted in 2001 and 2003 expire at the end of this year, raising taxes across the board in 2011, but especially for millions of low and moderate-income taxpayers. The top rate would revert to 39.6% (up from 35.0%). While nearly everyone is in favor of extending the cuts, the administration would like to only do so for those making less than $250,000 ($200,000 single), while Republicans have demanded the cuts be made permanent for everyone. A possible compromise will be a one- or two-year extension for everyone, while lawmakers consider how to tackle the deficit over the longer term.

   I hope and expect Congress to take action on the expiration of the Bush tax cuts by the end of January of 2011.

3. **Capital Gains and Dividends:** If the Bush tax cuts aren't extended, effective January 1, 2011, the top rate on long-term gains will rise to 20% from 15% and dividends will revert to being taxed as ordinary income with a top rate of 39.6%. The fate of these rates is likely tied to the income-tax outcome. Note, though, that the Obama budget has requested a top rate on dividends of 20%.

4. **Estate Tax:** Due to Senate inaction, the estate tax lapsed on January 1, 2010; it returns January 1, 2011 with an exemption of only $1 million per individual and a 55% top rate. While last year's House-passed bill, which is still current, would have extended 2009's exemption of $3.5 million and top rate of 45%, the Senate has been gridlocked over this tax all year. Some lawmakers want to keep 2009 rates, while others want to raise the exemption to $5 million or even to repeal the tax.

   The estate tax law changes are the most difficult outcome to predict. Unless Congress addresses this as part of income-tax compromise, it is very possible that it will not be addressed until well into 2011. This uncertainty makes estate planning very difficult!

Attached is a summary of scheduled changes in the tax laws assuming Congress does not act on any of these items above.

Credit for Energy-Efficient Improvements to Your Home Expires 12/31/10

Taxpayers are eligible for a credit of up to $1500 for energy-efficient improvements made to their principal residence during 2009 and 2010. Energy-efficient improvements include insulation systems that reduce heat loss or gain, exterior windows and doors, metal and asphalt roofs, advanced main air circulating fan, qualified natural gas, propane, or oil furnace or hot water heater and electrical pumps and central air conditioners. *Note that unless Congress acts, this credit expires with respect to any property placed in service after December 31, 2010.*

Sincerely,

Stephen P. McCarthy, CPA, CFP

Encl: "What Tax Provisions Apply? A Quick Summary"