MURRAY
INVESTMENT MANAGEMENT

1st Quarter 2011 Update

Economic Review

The U.S. economy continued to improve during the 1st quarter of 2011. The employment report showed that jobs were created each month, and the unemployment rate fell to 8.8%, its lowest level since early 2009.

Geopolitical concerns in Egypt and Libya and the earthquake in Japan were the primary storylines during the 1st quarter. The uncertainty provided by these events was unsettling to investors given the potential of the events to disrupt the global economy.

The geopolitical concerns in the Middle East had a significant impact on the price of oil, which shot up to over $100 / barrel during the quarter. Higher oil prices serve as a stealth tax to businesses (cutting into margins) and consumers (reducing discretionary spending). With consumer spending representing roughly 70% of U.S. GDP and a fragile economic recovery, the rapid rise in the price of oil has the potential to significantly impact the recovery.

During the quarter, the Federal Reserve remained in an accommodative position with low interest rates and an aggressive bond buying program (Quantitative Easing or "QE2"). The March Fed statement indicated a general belief that the economy is improving but not at a rate that will lead to inflation in the near term.

Equity Market Performance

	1Q11	YTD
S&P 500	5.92%	5.92%
MSCI EAFE (International index net return)	3.36%	3.36%

Despite a volatile three months, domestic equity markets climbed the prevailing "wall of worry" and posted a very strong first quarter. Investors seemed to conclude that the prospects for an improving economy outweighed the risks associated with the natural disaster in Japan and the other geopolitical events.

Small and mid cap securities generally performed better than large caps with small cap growth companies performing particularly well. The broad International markets posted positive returns but lagged U.S. performance during the quarter.

The Energy sector was the best performing sector in the S&P 500 during the first quarter and significantly impacted the overall performance of the market. Defensive sectors such as Consumer Staples and Utilities lagged the overall market, but all 10 sectors in the S&P 500 posted positive results.

Bond Market Performance

	1Q11	YTD
BarCap US Aggregate Bond (Broad Bond Market)	0.42%	0.42%
BarCap Municipal	0.51%	0.51%
BarCap US Corporate	0.86%	0.86%
BarCap US Corporate High Yield	3.88%	3.88%

The broad bond market advanced during the quarter and was led by the corporate high yield space. Short and long-term interest rates were held down by aggressive Fed action. Ten Year Treasury yields were volatile but closed the quarter at 3.47%, only slightly higher than year end 2010.

Economic Outlook

Despite some significant headwinds (unemployment, housing, U.S. budget concerns, etc.), there appears to be growing optimism that the economic recovery has the potential to become self-sustaining. Discussions over the next few quarters will be centered on how the economy will respond when 1) the Fed's QE2 program ends in June and 2) the Fed raises interest rates. In other words:

Is the U.S. economy strong enough to grow on its own without significant help from the government?

The Fed is delicately balancing its dual mandate of price stability and full employment by maintaining an accommodative monetary policy while monitoring for any signs of inflation. Since the Fed's current stance is that inflation is not a significant short-term concern, the Fed may not raise rates until early 2012.

In addition, over the remainder of the year, expect a great deal of discussion regarding the U.S. budget as it relates to deficits, debt and its impact on the U.S. economy. There is no question that spending has to be reigned in, but Congress has to be careful about the timing of spending cuts given the nature of the recovery.

Source: standardandpoors.com, bls.gov, Morningstar, CNBC.com, WSJ online and federalreserve.gov.
The performance data shown represents past performance, which is not a guarantee of future results.
Return data is as of 03/31/2011. Except as noted, index returns are Total Returns.

www.murrayinvestment.com | 713.850.7444 | sammurray@murrayinvestment.com

1st Quarter 2011 Update

Market Outlook

Investors should expect continued volatility in the equity markets. U.S. equity valuations do not appear to be overly stretched, but equity market performance has been very strong since the market bottomed in March 2009. Although the long-term prospects appear favorable, equity markets will not likely continue to go up without some sort of a correction. Taking a balanced approach to portfolio construction (exposure to both equities and fixed income) should help temper portfolio volatility if / when there is an equity market pullback.

In the bond market, the focus will be on potential inflation and rising interest rates. With the economy improving and the Fed's QE2 program ending in June, inflationary pressures could increase over the second half of the year. Rising inflation should ultimately lead to higher interest rates which will put pressure on bond prices. In this type of environment, holding shorter term fixed income securities appears to be a reasonable approach.

Murray Investment Management

If you would like to schedule a portfolio review or have any investment related questions, please give us a call. Also, please pass along our name to anyone that may be in need of investment advice.

Source: standardandpoors.com, bls.gov, Morningstar, CNBC.com, WSJ online and federalreserve.gov. The performance data shown represents past performance, which is not a guarantee of future results. Return data is as of 03/31/2011. Except as noted, index returns are Total Returns.