MURRAY
INVESTMENT MANAGEMENT

4th Quarter 2009 Update

Economic Review

For the first time in over a year, the U.S. economy grew during the 3rd quarter of 2009 and will likely show additional growth when 4th quarter numbers are released. Some of the growth can be attributed to the Fiscal stimulus provided by U.S. Government programs and low interest rates, which leaves in question the long-term sustainability of the economic recovery.

The Federal Reserve remained in a very accommodative (low interest rates) posture and kept interest rates in the 0% - .25% range during the quarter. The Fed is faced with the challenge of balancing the need to stimulate the economy with its desire to keep prices (inflation) in check. A move too soon to higher interest rates could disrupt a fragile economic recovery while a delay in raising rates could cause inflation to rise.

With unemployment at 10%, the jobs picture continues to be challenging. The pace of job losses, however, has slowed. Job losses were averaging 691,000 per month during the 1Q09 improving to losses of 69,000 per month during the 4Q09. This is one area of the economy that has remained stubbornly weak as other areas have improved.

Health Care legislation passed during the quarter, and Congress is now working on a final bill. From an investment standpoint, the primary focus of this bill is the impact that it will have on our budget deficit over the next decade and how the bill impacts small businesses.

Corporate earnings should continue to improve with particular strength expected for 4Q09 and 1Q2010 since the comparables will be very favorable. Analysts will again be looking for top line (revenue) growth as an indication of the sustainability and quality of corporate earnings.

Equity Market Performance

	4Q09	YTD
S&P 500	6.04%	26.46%
MSCI EAFE (International index net return)	2.18%	31.78%

Domestic equity markets posted very strong returns for both the quarter and the year 2009. With a 26.46% gain, the S&P 500 produced returns that are much greater than long-term historical market averages. The snap back performance was significant compared to the -37% loss that the S&P 500 produced in 2008. In addition, since the lows in early March, the S&P 500 was up over 65% through the end of the year.

International markets were even stronger than domestic outpacing the S&P 500 by over 5% (up 31.78%). Emerging International market performance was particularly strong with the MSCI Emerging Market index posting a gross return of 79.02% during the year.

The weakness in the U.S. dollar has been heavily scrutinized and has impacted market performance. For part of the quarter, the market was negatively correlated (dollar down and the market up, for example) with the direction of the dollar. A weak U.S. dollar makes goods cheaper overseas and helps our exports; conversely, for countries exporting to the U.S., a weak U.S. dollar makes their goods more expensive for U.S. consumers.

Domestic Market Sector Performance

S&P 500 Sector (price returns)	YTD
Information Technology	59.92%
Materials	45.23%
Consumer Discretionary	38.76%
Industrials	17.27%
Health Care	17.07%
Financials	14.80%
Energy	11.29%
Consumer Staples	11.20%
Utilities	6.80%
Telecommunications Services	2.63%

All 10 sectors of the S&P 500 produced positive performance during 2009 with the Technology, Materials, Consumer Discretionary and Industrials sectors leading the way. Interestingly, the Technology, Industrials and Materials sectors were 3 of the weaker performers during 2008 but bounced back strongly as leaders in the current year.

Bond Market Performance

	4Q09	YTD
BarCap US Aggregate Bond (Broad Bond Market)	0.20%	5.93%
BarCap Intermediate Treasury	-0.61%	-1.41%
BarCap Municipal	-0.96%	12.91%
BarCap US Corporate	1.35%	18.68%
BarCap US Corporate High Yield	6.19%	58.21%

The broad bond market produced positive returns during the year, but U.S. Treasuries did show some weakness after robust gains in 2008. The High Yield Corporate bond market, which is considered one of the more risky spaces in the bond market,

Source: standardandpoors.com, bls.gov, Morningstar, BEA.gov and federalreserve.gov.
The performance data shown represents past performance, which is not a guarantee of future results.
Return data is as of 12/31/2009. Except as noted, index returns are Total Returns.

produced remarkable returns of 58.21% during 2009. This performance followed a -26.16% loss in 2008. Given the volatility in the high yield space, we have generally chosen not to allocate cash here since we are seeking more stability out of our fixed income investments.

Economic Outlook

The economy should continue to improve throughout 2010, but the recovery is expected to be choppy with modest growth expectations.

In the coming year, there is concern that consumers can pick up the slack when the Fiscal (Government) and Monetary (Federal Reserve) stimulus is removed. How the private sector handles this stimulus withdrawal will go a long way toward defining the shape of the recovery. In other words, can the economic recovery continue without the assistance of the Fed and the U.S. Government? This is the largest short-term issue for the economy in our opinion, and we will be monitoring it closely.

In particular, we will be watching the Fed for clues as to the pace with which they will be withdrawing stimulus and raising interest rates. The Fed is going to have some very difficult decisions to make during 2010. While the Fed may raise rates during 2010, the increases (if any at all) are expected to be modest.

Unemployment will likely stay elevated for most of 2010. Many companies will seek to get more out of existing employees (productivity gains), hire temporary workers or increase work week hours before hiring new workers. The uncertainty associated with the costs of Health Care Reform as well as other proposals being considered in Washington could lead companies to take a wait-and-see approach before adding to payrolls. We need to see job growth and sustainable consumer spending levels to have confidence that the recovery is sustainable.

Corporate America is leaner and operating more efficiently than in the past, but the question remains when companies will start hiring again and spending money on capital investments. The availability of credit to small businesses remains a concern but has improved and should continue to improve in the current year.

In the longer term, a roadmap for a more sustainable Fiscal Policy is going to be needed. The U.S. government is walking the fine line of balancing the current fragile economic environment with the long-term issue of too much debt. We can't borrow and spend forever. The reality of a looming debt crisis is somewhat clouding the waters of the existing recovery.

Market Outlook

The stock market has had an incredible run, particularly since the lows of March, 2009. With an improving economy and the potential for strong corporate earnings growth, continuing market improvement is not out of the question for 2010.

While clearly more expensive than the levels that we saw in early 2009, the equity market is not unreasonably priced at current levels if corporate earnings growth comes through as expected in 2010.

With the run that equity markets have had, we have to wonder, however, how much of the economic recovery is already priced into the market. The bar has been raised, and any misstep could lead to a market pullback. We would view any sort of modest market correction as a reasonable part of the recovery and not a reason to panic.

In the fixed income markets, we will be monitoring the Fed's response to rising prices closely as excessive liquidity and an improving economy potentially push prices and interest rates higher.

From an Equity portfolio perspective, we believe that it's important to remain diversified by geography (domestic and international), capitalization (small, mid and large) and style (growth and value). In the Fixed Income space, we continue to advocate positioning that is on the shorter end of the curve and is in higher quality securities.

Murray Investment Management

If you would like help with establishing an investment plan or would like to schedule a portfolio review, please give us a call. Also, please pass along our name to anyone that may be in need of investment advice.

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