MURRAY INVESTMENT MANAGEMENT

3rd Quarter 2008 Update

Economic Review

The U.S. economy continued to slow during the 3rd quarter with an increasing likelihood that we are currently in a recession. Over the last several decades as we have transitioned from a manufacturing to a service-based economy, recessions have become less frequent in the U.S. In fact, since the early 1980s we have had separate periods of over 7.5 years and 10 years of economic expansions. And despite the constant reporting of how bad things are progressing, the economy has been growing since the 4th quarter of 2001, an almost 7 year expansion that exceeds our typical expansion cycle (since 1945, the typical expansion is approximately 5 years). Given that the economy is cyclical and has periods of expansion and contraction, it should not come as a surprise that we are currently slowing and likely in a recession. The question that market analysts are now debating is how deep the recession will go and how long it will last.

On top of the natural slowing of the economy, we are currently dealing with the largest credit crisis that we have seen in many years. At the root of the crisis is a weakening housing market and declining mortgage values. Lending among banks, businesses and consumers has dried up dramatically, and fear has gripped the system. As such, there is less money available for businesses and consumers to spend and help the economy grow.

Broad Market Performance

With this economic backdrop, the equity markets performed poorly during the 3rd quarter.

	3Q08	YTD
S&P 500	-8.88%	-20.57%
MSCI EAFE (International index)	-21.05%	-31.07%

As of September 30, 2008

September was a particularly bad month for the market with the Dow Jones Industrial Average posting its largest single day drop (down 777 points) in history with volatility and fear dominating the market. For the quarter, a stronger U.S. dollar and a slowing global economy contributed to a selloff in international stocks, and domestic stocks outperformed international stocks by over 10%.

Additionally, the Russell indices show that small cap stocks outperformed large caps, and value stocks outperformed growth stocks during the quarter. Small cap value stocks were the best performers in the major Russell indices posting a positive 4.96% return during the quarter.

Domestic Market Sector Performance

S&P 500 Sector	% S&P 500	3Q08	YTD
Consumer Staples	12%	4.14%	-4.76%
Health Care	13%	-0.01%	-13.47%
Financials	16%	-0.10%	-30.96%
Consumer Discretionary	8%	-1.04%	-14.75%
S&P 500		**-8.88%**	**-20.57%**
Industrials	11%	-9.12%	-22.38%
Information Technology	16%	-12.11%	-23.91%
Telecommunications Services	3%	-15.74%	-31.66%
Utilities	4%	-18.74%	-22.26%
Materials	3%	-22.93%	-22.78%
Energy	13%	-24.95%	-18.85%

As of September 30, 2008

Energy and Material stocks were hit hard during the quarter and were down 25% and 23%, respectively. A dramatic drop in the price of oil (down over 25% during the quarter) and a slowing global economy contributed to weak performance in these sectors. Financial stocks where the 3rd best performing sector in the S&P 500 and outperformed the broad market index. Consumer Staples and Health Care stocks, often considered to be more stable and less economically sensitive than other areas of the markets, were the best performers during the quarter.

Outlook

We are currently dealing with two challenging situations – a slowing global economy and a credit crisis. These situations are related, and a prolonged credit crisis will contribute to a longer and deeper economic contraction. While the Federal government's $700 billion dollar rescue plan is not likely to immediately solve our credit problems, its passage will assist in freeing up credit and helping us move towards a more normal credit environment. As the lending environment stabilizes and fear subsides, we can begin working our way out of the economic slowdown. As company's report quarterly earnings over the next several weeks, we should have a better understanding of how much the economy is currently slowing.

It's important to have discipline and stick to an investment plan at all times, but it's particularly important in challenging markets such as this. There is value in having a diversified portfolio with broad exposure to different areas of the market. While we will likely see continued volatility in the market and we have some work to do to get through this economic slowdown, patient investors who have a disciplined approach should be rewarded over the long term.

Please give us a call if you have any questions or if you would like to schedule a portfolio review.

Source: stadardandpoors.com, russell.com, nber.org, mscibarra.com. Return data is as of 9/30/2008.

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