MURRAY
INVESTMENT MANAGEMENT

2nd Quarter 2009 Update

Economic Review

The economic environment remained weak during the 2nd quarter. The pace of contraction did, however, slow in some areas (referred to as "green shoots") giving rise to renewed optimism about a potential recovery. The Federal Reserve noted this slight improvement but kept interest rates in the 0% - .25% range during the period. The Fed is in a very accommodative position with the intention of stimulating the economy with a lower interest rate environment.

Although job losses were large during the quarter, the declines slowed during April and May, but the June jobs report was weaker than expected. Unemployment increased during the quarter from 8.5% in March to 9.5% in June. Since consumer spending drives so much of U.S. GDP, the employment picture is critical to our overall economic health. Since the unemployment rate is a lagging indicator, it may continue to rise as other areas of the economy improve.

It's not unusual for prices to fall in a slow / contracting economy. As such, the inflation rate (which represents the change in prices) remained in check during the quarter. Given extremely low interest rates and an accommodative fiscal policy (the U.S. government is borrowing and spending loads of money), there is a growing concern about the possibility of future inflation. While this concern is warranted and should continue to be monitored, the slack in the current economy will likely prevent a significant rise in prices in the short term.

The fall in home prices has also begun to moderate although prices are still very weak. With home equity representing a large part of many consumers' net worth, an improvement in this part of the economy is very important to a sustainable economic recovery.

Equity Market Performance

	2Q09	YTD
S&P 500	15.93%	3.16%
MSCI EAFE (International index net return)	25.43%	7.95%

There was a major shift in sentiment in the equity markets during the quarter as investors showed a renewed willingness to invest in riskier assets. The broad equity markets produced very strong results during the quarter, continuing improved performance from the lows reached in early March. From the March lows, the S&P 500 was up over 37% at the end of the quarter. This move has been powerful and rapid and began at a time when volatility and fear were driving the market.

In the domestic markets during the quarter, small cap stocks outperformed large cap stocks. This is not unusual in the early parts of a market rebound and will be interesting to watch as the year progresses. International markets outperformed domestic markets with particularly strong results in emerging markets (i.e. China and Brazil).

Domestic Market Sector Performance

S&P 500 Sector	% S&P 500	2Q09	YTD
Financials	14%	35.08%	-4.76%
Information Technology	18%	19.35%	24.08%
Industrials	10%	18.01%	-7.68%
Consumer Discretionary	9%	17.65%	7.52%
S&P 500		15.93%	3.16%
Materials	3%	15.53%	12.28%
Energy	12%	10.06%	-3.24%
Consumer Staples	12%	8.87%	-3.44%
Utilities	4%	8.83%	-4.08%
Health Care	14%	8.27%	-0.96%
Telecommunications Services	4%	1.90%	-6.73%

All 10 sectors in the S&P 500 had positive returns for the quarter. The Financial sector was the best performing sector but remained in negative territory for the year. The Technology space was strong during the quarter and is the best performing sector year to date. The Industrial and Materials sectors responded to the sentiment that the global economy is improving and that we will see renewed demand out of developing markets. It will be interesting to note how these sectors perform if we have a pull back in the market.

Bond Market Performance

	2Q09	YTD
BarCap US Aggregate Bond (Broad Bond Market)	1.78%	1.90%
BarCap Intermediate Treasury	-2.14%	-2.42%
BarCap Municipal	2.11%	6.42%
BarCap US Corporate	10.45%	8.32%
BarCap US Corporate High Yield	23.07%	30.43%

The broad bond market produced positive returns during the quarter. The corporate bond market (particularly high yield corporates) had very strong performance. The high yield bond market is typically one of the more volatile (and risky) areas of the bond market, and these types of bonds did well as investors exhibited a renewed appetite for risk. Conversely, the U.S. Treasury market was under pressure and generally had weak returns as money moved out of this low-risk area

Source: standardandpoors.com, bls.gov, Morningstar, federalreserve.gov, and CNBC.com
The performance data shown represents past performance, which is not a guarantee of future results.
Return data is as of 06/30/2009. Except as noted, index returns are Total Returns.

and into riskier assets. During the 2008 financial crisis, Treasuries performed very well as investors were attracted to the safety of these securities. We saw the reverse of that action this quarter.

Outlook

The markets' ability to shrug off bad news (weak GDP, auto bankruptcy, swine flu, bank stress tests, etc.) and rally during the quarter was largely due to oversold market conditions and slowing rates of decline (green shoots) in some areas of the economy. While the economy is not slowing as rapidly as it was, it is still contracting, and we expect improvements to be moderate over the second half of the year.

Green shoots may not be good enough to drive the market forward from here. Ultimately, investors will want to have some clarity about real growth in the economy and sustainable corporate earnings growth. On those points, there is a great deal of debate regarding the direction in which we will proceed.

The arguments supporting continued equity gains and an improving economy center around 1) massive government spending 2) low interest rates 3) a stabilizing financial sector and 4) lower energy prices.

The bearish argument focuses on the following: 1) excessive government spending causing inflation 2) weak consumer spending due to a rise in the savings rate and the weak employment situation 3) a poor housing market and 4) equity market valuations that are not as attractive as they were earlier in the year.

In addition, there remains a high level of anxiety related to the U.S. Government's increased involvement in businesses, the cap and trade proposal, tax increases and the health care reform package.

When you weigh all of the data together, it appears that the equity markets may have advanced too quickly and that the economic recovery will be choppy in the near term. An equity market pullback from the recent highs could be expected, and we have seen some weakness during the second half of June and the early part of July.

While the short term may produce some volatility, the longer term view appears positive for both the economy and the markets. The massive amounts of Fiscal stimulus (Government Spending) plus an accommodative Monetary policy (lower interest rates) should be enough to move the economy out of recession and the equity markets forward.

We will view short term market weakness as an opportunity to dollar cost average and establish positions in areas that we expect to do well as the economy pulls out of the recession.

We will be closely monitoring the consumer data that is released each month. We will be looking for an improving jobs picture and a stable housing market to determine if the economic recovery is sustainable.

Buffett's Advice

In a recent CNBC interview, Bianna Golodryga asked Warren Buffett for his "top three pieces of advice for average Americans who want to grow their savings and keep their money safe." Buffett's responded with the following:

1. If it seems too good to be true, it probably is.
2. Always look at how much the other guy is making when he is trying to sell you something.
3. Stay away from leverage. Nobody ever goes broke that doesn't owe money.

This is good advice.

Charitable Giving

Charitable giving is a large part of many investors' financial planning. Donor-advised charitable gift funds provide investors with an opportunity to make charitable contributions in a tax-efficient, flexible manner. If you are interested in learning more about these funds, please let us know.

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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