MURRAY
INVESTMENT MANAGEMENT

3rd Quarter 2009 Update

Economic Review

The U.S. economy continued to show moderate improvement during the 3rd quarter, and when GDP is released on October 29th, it will likely show that the economy grew for the first time in over a year. To frame the magnitude of the slowdown that we have had, it's interesting to note that prior to the 3rd quarter, we had 4 consecutive quarters of negative GDP growth (economic contraction), which is the first time that this has happened since the US government started tracking GDP data in 1947.

During the quarter, the Fed kept interest rates unchanged in the 0% - .25% range and expressed its intention to keep rates low for an "extended period." The Fed is attempting to balance inflationary pressures with its desire to stimulate the economy, but there appears to be enough slack in the economy to alleviate immediate worries about inflation and rate hikes. On a related note, Ben Bernanke was re-appointed as Chairman of the Fed, which provides stability for the market and takes away the uncertainty associated with the direction a new Fed Chairman may take.

Rising unemployment remained the primary economic concern during the quarter. Overall, the pace of job losses slowed during the quarter, but the unemployment rate increased to 9.8% in September and is at its highest level since 1983. Since the recession began in December of 2007, the US economy has lost over 7 million jobs, and payrolls have declined for 21 consecutive months. The direction of the jobs report in the coming months will heavily influence the pace of the economic recovery and market performance.

Second quarter corporate earnings were generally better than expected, but the improvement was largely driven by expense control rather than top-line revenue growth. As the saying goes, "you can't cost cut yourself to prosperity," and going forward many will be looking for expanding revenue numbers as evidence of an economy that is on the mend.

Equity Market Performance

	3Q09	YTD
S&P 500	15.61%	19.26%
MSCI EAFE (International index net return)	19.47%	28.97%

The quarterly performance that the S&P 500 posted (up 15.61%) would be considered strong yearly performance compared to historical averages. International markets were even better, posting a quarterly return of 19.47%. Year to date, Emerging Markets have been particularly strong in the International space. Overall, the equity markets shrugged off most of the negative news during the quarter and focused on improving economic fundamentals and better than expected corporate profits.

Many investors may be surprised to know that since early March, the S&P 500 is up over 50%. The magnitude and pace of this rally has been significant and began when investor sentiment was at a very low point. The rally illustrates the importance of having a long-term investment plan and the difficulty of market timing.

Domestic Market Sector Performance

S&P 500 Sector	% S&P 500	3Q09	YTD
Financials	15%	25.14%	19.19%
Industrials	10%	21.24%	11.93%
Materials	4%	21.00%	35.86%
Consumer Discretionary	9%	18.85%	27.78%
Information Technology	19%	16.70%	44.80%
S&P 500		15.61%	19.26%
Consumer Staples	12%	10.50%	6.70%
Energy	12%	9.49%	5.94%
Health Care	13%	8.91%	7.87%
Utilities	4%	4.96%	0.68%
Telecommunications Services	3%	3.94%	-3.06%

Generally, the more volatile (high beta) areas of the market were the better performers during the quarter after suffering the largest declines during the down turn. The Financial sector, for example, was the worst performer during 2008 but was the top performing sector during the 3rd quarter and since early March. The less economically sensitive areas (consumer staples and health care) were some of the weaker performers during the quarter and underperformed the overall S&P 500. For the year, 9 out of 10 sectors have produced positive returns led by the Technology and Materials sectors.

Bond Market Performance

	3Q09	YTD
BarCap US Aggregate Bond (Broad Bond Market)	3.74%	5.72%
BarCap Intermediate Treasury	1.66%	-0.81%
BarCap Municipal	7.12%	14.00%
BarCap US Corporate	8.12%	17.11%
BarCap US Corporate High Yield	14.22%	48.98%

Source: standardandpoors.com, bls.gov, BEA.gov, federalreserve.gov and Morningstar.
The performance data shown represents past performance, which is not a guarantee of future results.
Return data is as of 09/30/2009. Except as noted, index returns are Total Returns.

As was the case in the equity market, the more risky (high yield) area of the bond market was the best performer during the quarter and is up nearly 50% for the year. Higher grade corporate bonds and municipal bonds continued to do well during the quarter while the Treasury market produced modest returns.

Outlook

Many expect slow economic growth over the coming quarters. There is a large concern about whether the economy can keep growing when the Fiscal (cash for clunkers, home ownership tax credit, etc.) and Monetary (Federal Reserve) stimulus is removed. The manner with which these are removed will be critical to not upsetting the already fragile recovery.

In addition, there is currently a contrast between the moderate improvements that are being seen in some of the economic data and the employment picture, which remains weak. Employment will not likely improve until well into 2010 and is the missing link (jobless recovery) in the current environment. Before adding full time employees, many businesses will attempt to get as much productivity out of existing workers as possible, increase work week hours or hire temporary employees – all of these efforts will prolong the hiring cycle.

An increasing savings rate and a weak employment picture do not bode well for consumer spending, which drives a large part of economic growth. Any sustainable recovery will have to see a smooth transition from public spending (the U.S. government) to private consumer spending. To monitor this development, the coming holiday shopping season will be closely analyzed for evidence of improved consumer sentiment.

There will be a great deal of focus on corporate earnings as 3rd quarter earnings are released. The bar will be raised higher for companies in the 3rd quarter and beyond with analysts wanting to see top-line growth in order to feel more comfortable that earnings growth is sustainable. The guidance that companies provide about future expectations will likely contribute heavily to market performance during the 4th quarter.

For the equity markets, the question remains have we come too far too fast? While the valuation of the market was more compelling earlier in the year, the case can be made that earnings expectations support current levels and the potential for additional growth. It's important to note, however, that after the magnitude of gains that we have seen, some sort of correction would not be unexpected.

As the market rally has been driven by the expectation of an improving economy, maintaining the rally will partially depend on the economy delivering the expected growth that is priced into the market. We will be monitoring the economic data to determine our view on the sustainability of both the market and the economic recovery.

Texas Monthly Magazine

In September of 2009, Sam Murray was named a Five Star Wealth Manager by Texas Monthly Magazine for best in client satisfaction in the Houston Region. This distinction was awarded to less than 2 percent of the wealth managers in the Houston area.

Retirement Planning

A large portion of most investors' net worth is invested in an Employer Sponsored Plan (401(k) or 403(b), for example) or in an IRA. Unfortunately, many do not give enough attention to how they are investing their money in these vehicles. With that in mind, a thorough review of how your retirement savings are invested is critical. We would be glad to sit down with you and discuss your retirement plan with no obligation on your part. If you would like to set up a meeting, please let us know.

Source: standardandpoors.com, bls.gov, BEA.gov, federalreserve.gov and Morningstar.
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