MURRAY
INVESTMENT MANAGEMENT

1st Quarter 2013 Update

Economic Review

The U.S. economy continued to show modest improvement during the 1st quarter with a strengthening housing market serving as one of the more significant contributors to growth. 4th quarter GDP growth was .4% with expectations for 1st quarter growth to pick up from this rate. The Federal Reserve remains very accommodative and is not expected to increase rates until there is significant improvement in economic growth and in employment.

Higher U.S. payroll taxes and government spending cuts that were enacted due to the sequester are serving as an economic headwind, but overall, the consumer appears to be holding up fairly well as the employment situation improves and offsets the tax increases. At the end of February, monthly job growth averaged 191,000 for the preceding 3 months, and the unemployment rate fell to 7.7%.

Equity Market Performance

	YTD
S&P 500	10.61%
MSCI EAFE (International index net return)	5.13%

Equity markets were very strong in the first quarter with the Dow Jones Industrial Average and the S&P 500 both surpassing there all-time highs. Even though it was for 3 months, the S&P 500's 10.61% return would be considered very strong performance for an entire year. Two defensive sectors, Health Care and Consumer Staples, were among the better performers.

The broad International markets were generally positive but underperformed domestic markets. In the International space, developed markets outperformed emerging markets.

Bond Market Performance

	YTD
BarCap US Aggregate Bond (Broad Bond Market)	-0.12%
BarCap Municipal	0.29%
BarCap US Treasury Long	-2.38%
BarCap US Corporate	-0.11%
BarCap US Corporate High Yield	2.89%

The broad U.S. bond market was slightly down for the quarter as the 10 year Treasury yield moved from 1.78% to 1.87%. The high yield corporate space generally performed better than other areas.

Economic Outlook

The U.S. economy should continue to grow at modest levels throughout 2013. The wealth effect (from an improving housing market and a strong stock market) is producing a tailwind for consumer spending and an accomodative Federal reserve is helping drive GDP growth. In addition, two longer term U.S. themes (energy independence and manufacturing resurgence) will continue to be very positive for the U.S. economy as they create somewhat of a virtuous cycle for employment growth.

The automatic spending cuts (March 1 sequester) will be monitored closely to see their impact on the economy and capital markets. While they caused a great deal of discussion and concern, some cuts are necessary, and it is encouraging that lawmakers are discussing the long-term implications of our budget deficits and debt.

Market Outlook

Domestic equity markets appear to be reasonably valued (but not cheap) with the potential for growth over the longer term. In the near term, investors should expect increased volatility and more modest returns with the possibility for some sort of market correction. The potential performance drivers include an improving economy, a strong corporate sector and limited fixed income alternatives for low-yielding cash that could find its way into equity markets.

These drivers have to be weighed against the impact of reduced government spending, higher taxes and the potential pitfalls in Europe. In addition there is a growing level of concern that the 5-year market rally is getting extended and is largely driven by aggressive Fed policy.

For portfolio construction, an equity market correction could reasonably be viewed as a good opportunity to establish or add to equity positions. And although fixed income should serve a role in most portfolios, this space is generally less attractive than equity markets given the historically low interest rate environment. As such, holding higher than expected cash levels for a portfolio's fixed income allocation seems to make sense in this environment.

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.

Source: standardandpoors.com, bls.gov, Morningstar, bea.gov, cnbc.com, wsj.com, iShares and treasury.gov
The performance data shown represents past performance, which is not a guarantee of future results.
Return data is as of 03/31/2013. Except as noted, index returns are Total Returns.

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