MURRAY
INVESTMENT MANAGEMENT

1st Quarter 2012 Update

Economic Review

The U.S. economy continued to grow at a slow pace during the 1st quarter but did show some encouraging signs of improvement in employment and manufacturing. 4Q 2011 GDP came in at 3%, which was its strongest reading in the last 6 quarters, and the unemployment rate fell to 8.3% at the end of February. Corporate profit growth, one of the recent bright spots of the economy, has somewhat slowed, however, and will be monitored closely given its relationship to employment and the overall economy.

The approval of Greek austerity measures was a positive development for the global economy during the quarter. In addition, the European Central Bank's long term refinancing operations ("LTRO") provided significant liquidity to European banks and eased investor concerns about a European banking crisis.

In January, the Federal Reserve stated that it is targeting an inflation rate of 2% and noted its intention to keep interest rates at a very low level through late 2014. These types of statements are a new approach by the Fed to be more transparent in their thoughts and intentions for policy direction.

Equity Market Performance

	YTD
S&P 500	12.59%
MSCI EAFE (International index net return)	10.86%

U.S. equity markets posted very strong performance during the 1st quarter with much less volatility than we experienced during 2011. The Financial and Technology sectors were up over 20% and were among the better performers. An overall improving U.S. economy, the infusion of liquidity from the European Central Bank and a comfort that the European financial crisis was averted drove markets higher.

The Tech-heavy NASDAQ rallied sharply and was up 18.67% during the quarter. With the strength in Technology, Growth investing generally outperformed Value while the different market capitalizations (small, medium and large) were roughly in line with each other. The Dow Jones Industrial Average closed above 13,000 for first time since 2008 and was up 8.84% during the quarter.

The broad International markets were also strong during the quarter but lagged U.S. performance. Emerging Markets, however, posted very strong performance (up over 14%) and were among the leaders in the International space.

Bond Market Performance

	YTD
BarCap US Aggregate Bond (Broad Bond Market)	0.30%
BarCap Municipal	1.75%
BarCap US Treasury Long	-5.80%
BarCap US Corporate	2.08%
BarCap US Corporate High Yield	5.34%

Broad bond market performance was slightly positive during the quarter. Corporate bonds were generally the better performers while the longer term U.S. Treasury market was under pressure. The 10 year Treasury rate rose from 1.89% to 2.23% during the quarter, but interest rates still remain at very low levels.

Economic Outlook

The U.S. economy is expected to continue to muddle along with modest growth expectations and slow improvement in employment. Corporate earnings have softened somewhat, and expectations have come down given concerns that corporations have squeezed all that they can out of productivity enhancements. U.S. corporate profits are still growing, however, and many companies are sitting on huge cash balances. It seems that corporations need more clarity on the economy, tax rates and government regulations before committing to spend more money. If these issues are resolved favorably, business spending and hiring could provide a needed boost to the economy.

Elevated levels of unemployment, a cautious business environment and a weak housing market have kept the U.S. economy from consistent growth over the last several years. How these three measures change over the coming quarters will heavily influence the direction and strength of economic growth.

Market Outlook

After a very strong 6 month rally (S&P 500 up over 24%), equity investors should reasonably expect some sort of market pullback as we approach the summer months. In addition, the uncertainty associated with the November elections could serve as a headwind for equity markets as we move toward the end of the year.

U.S. equity valuations, however, still seem reasonable with the prospects for solid market performance still in tact if the global recovery continues. The strength of the U.S economy and the continued improvement in the jobs picture will likely heavily influence equity markets. Risks to this positive outlook include a hard landing in China, potential European

Source: standardandpoors.com, bls.gov, Morningstar, bea.gov, cnbc.com, wsj.com, iShares and federalreserve.gov, treasury.gov
The performance data shown represents past performance, which is not a guarantee of future results.
Return data is as of 03/30/2012. Except as noted, index returns are Total Returns.

debt crisis / recession and higher gasoline prices cutting into U.S. consumer spending.

For Fixed Income, some are calling for an end to the decades-long bull market that has occurred in this space. With interest rates at extremely low levels, an improving economy and excessive sovereign debt, interest rates are likely headed up over time. Consequently, we are generally holding more cash than we would in a more normal interest rate environment and prefer shorter term fixed income 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.

Source: standardandpoors.com, bls.gov, Morningstar, bea.gov, cnbc.com, wsj.com, iShares and federalreserve.gov, treasury.gov
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