3rd Quarter 2011 Update

Economic Review

The U.S. and other global economies appeared to slow during the 3rd quarter with renewed concerns of a potential recession. 2Q11 GDP was reported at 1.3% with growth estimates for the 2nd half of the year coming down.

To varying degrees of significance, the following events dominated headlines during the 3rd quarter:

1. Europe's debt woes and the potential spillover effect this could have on global economic growth
2. The downgrade of the U.S. Government's credit rating
3. The health of the U.S. and global economies
4. The U.S. debt ceiling debate

The Fed's response to the above was to state that it plans to keep rates in the 0% to .25% range at least through mid 2013. The Fed also announced what has been called Operation Twist, which is a plan to buy "$400 billion of Treasury securities with remaining maturities of 6 years to 30 years" by selling shorter term Treasuries. The intent is to drive longer term interest rates lower and "make broader financial conditions more accommodative."

The U.S. unemployment rate remained elevated at 9.1%, and job growth was slow during the quarter. Over the last 2 years, the unemployment rate has remained above 8% with average monthly job gains of 67,000. To put that in context, it is estimated that we need roughly 150,000 new jobs per month to put a meaningful dent in the unemployment rate.

Equity Market Performance

	3 Mo	YTD
S&P 500	-13.87%	-8.68%
MSCI EAFE (International index net return)	-19.01%	-14.98%

U.S. and International equity markets were down sharply during the 3rd quarter and produced some of the worst quarterly performance since the 2008-2009 financial crisis. Equity markets were extremely volatile with the Dow Jones Industrial Average swinging more than 400 points on four consecutive days for the first time ever. Fear and emotional factors appeared to be driving the market down as the four issues noted above weighed on investors' minds.

Assets that are typically more volatile (Small Cap and International securities) were generally the weaker areas of the market during the quarter with the European debt crisis significantly impacting International performance. For domestic markets, the Material, Financial, Industrial and Energy sectors (which are typically viewed as the more economically sensitive sectors) were the weaker performers while more defensive sectors generally performed better.

Bond Market Performance

	3 Mo	YTD
BarCap US Aggregate Bond (Broad Bond Market)	3.82%	6.65%
BarCap Municipal	3.81%	8.40%
BarCap US Treasury Long	24.66%	27.55%
BarCap US Corporate	2.85%	6.10%
BarCap US Corporate High Yield	-6.06%	-1.39%

Despite the S&P downgrade and a negative real (inflation adjusted) yield for some maturities, U.S. Treasuries were up sharply during the quarter. As investors poured money into Treasuries, the yield on the 10 year bond dropped from 3.16% to 1.91% (roughly a 40% change) while long-term Treasury prices were up over 24%. High Yield corporate bonds were weak during the quarter while the broad bond market generally provided solid performance.

Economic Outlook

The outlook for the U.S. economy is currently clouded with uncertainties. Many have concluded that a recession is imminent while others are more optimistic. The optimistic outlook typically focuses on the strength of U.S. corporations (strong earnings and solid balance sheets), an accommodative monetary policy (low interest rates) and falling energy prices.

Those in the recession camp see the potential for a spillover effect from Europe, high unemployment and an unfriendly business environment (higher taxes and increased regulations) as too much to overcome. In addition, there is growing concern that the recession will become somewhat of a self-fulfilling prophesy as unemployed consumers reign in spending while companies wait for a better economy to start hiring and spending.

While the direction of the economy will become more clear over the next several months, our near term expectation is for very modest growth for both the overall economy and employment.

Source: standardandpoors.com, bls.gov, Morningstar, BEA.gov, CNBC.com, federalreserve.gov. and WSJ
The performance data shown represents past performance, which is not a guarantee of future results.
Return data is as of 09/30/2011. Except as noted, index returns are Total Returns.

MURRAY
INVESTMENT MANAGEMENT

3rd Quarter 2011 Update

Market Outlook

With the market selloff, equity markets appear to be pricing in a recession. If Europe can successfully navigate its crisis and we avoid a U.S. and global recession, this selloff is potentially a buying opportunity.

Given the expected continued volatility, however, the time horizon that investors have is critical. For investors who have a longer term horizon (3-5 years) and are willing to ride out the volatility, equity valuations appear attractive at today's levels.

Many believe that that direction of equity markets and the economy are somewhat in the hands of U.S. and European Government officials with the European debt crisis currently taking center stage. Continued corporate earnings strength, an improving jobs picture and a successful resolution of the European debt crisis would all be welcome events for investors.

We will be using the current market selloff as a potential opportunity to buy equities at more attractive valuations by putting excess cash to work and rebalancing portfolios. While we are looking broadly for attractively priced asset classes, we are particularly interested in dividend paying companies, which provide some income and potential stability in volatile markets.

With historically low interest rates, valuations in the fixed income market appear stretched. When rates ultimately rise, fixed income prices will fall, so it seems to make sense to hold fixed income securities on the shorter end of the yield curve along with holding some cash that can be reinvested at higher rates when rates move up.

Texas Monthly Magazine

For the third year in a row, Sam Murray was named a Five Star Wealth Manager by Texas Monthly Magazine. This distinction was awarded to less than 2 percent of the licensed wealth managers in the Houston region.

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, federalreserve.gov. and WSJ
The performance data shown represents past performance, which is not a guarantee of future results.
Return data is as of 09/30/2011. Except as noted, index returns are Total Returns.