MURRAY
INVESTMENT MANAGEMENT

# 1ST Quarter 2009 Update

## *Economic Review*

The U.S. economy continued to weaken during the 1st quarter of 2009. We did, however, begin to see some encouraging signs with consumer spending and existing home sales showing modest improvement. While neither data point suggests a quick rebound, both of these metrics are critically important to an overall economic recovery.

The unemployment rate increased to 8.5% from 7.2% at the end of 2008. Unemployment is considered a lagging indicator and is expected to continue to weaken throughout 2009 with some unemployment estimates topping 10% by the time the employment picture begins to improve.

The Federal Government continued its accelerated pace of addressing our economic concerns. The major programs that were launched during the quarter included the TALF (Term Asset-Backed Securities Loan Facility) to address consumer and business credit, PPIP (Public-Private Investment Program) to address the toxic assets on the books of financial companies, and a $787 Billion economic stimulus plan to help jump start the economy.

There is growing concern about the increased role of the Federal Government in the U.S. marketplace. Some feel that the current administration is using the economic crisis to launch an expanded role for the government that could lead to higher taxes and increased debt. This possibility has weighed on the capital markets.

### *Equity Market Performance*

| | 1Q09 | YTD |
|---|---|---|
| S&P 500 | -11.01% | -11.01% |
| MSCI EAFE (International index) | -13.94% | -13.94% |
| FTSE NAREIT Eq REIT (Real Estate) | -31.87% | -31.87% |
| Dow Jones AIG Commodity | -6.31% | -6.31% |

The most commonly followed equity asset classes (domestic, international, real estate and commodities) were down for the quarter. Of these asset classes, the Real Estate space was the most severely depressed.

The negative returns for the quarter masked a broad-market rally that began at the beginning of March. The S&P 500 was up 19.6% from its low of 667 on March 6 to close the quarter at 798. Several factors contributed to the rally including a positive reception of the PPIP (see above), modest improvement in some economic numbers, relaxing the mark-to-market rule by the financial accounting standards board (FASB), and positive earnings news from a few of the major banks. It's important to note, however, that with the rally at the end of the 1st quarter, the S&P 500 was still off over 45% from its high.

Within the U.S. equity markets, Large Cap stocks outperformed Small Caps for the quarter while Growth stocks outperformed Value stocks for the same period.

In addition, the broad International markets underperformed the Domestic markets during quarter. In the alternative investment space, Commodities were down, but on a relative basis performed better than the broad markets.

### *Domestic Market Sector Performance*

| S&P 500 Sector | % S&P 500 | 1Q09 | YTD |
|---|---|---|---|
| Information Technology | 18% | 3.96% | 3.96% |
| Materials | 3% | -2.82% | -2.82% |
| Telecommunications Services | 4% | -8.47% | -8.47% |
| Health Care | 15% | -8.52% | -8.52% |
| Consumer Discretionary | 9% | -8.61% | -8.61% |
| **S&P 500** | | **-11.01%** | **-11.01%** |
| Consumer Staples | 13% | -11.31% | -11.31% |
| Utilities | 4% | -11.86% | -11.86% |
| Energy | 13% | -12.08% | -12.08% |
| Industrials | 10% | -21.77% | -21.77% |
| Financials | 11% | -29.49% | -29.49% |

Within the S&P 500, there was a wide divergence of sector performance during the quarter. The Technology space was the best performing sector while the Financials lagged all other sectors.

### *Bond Market Performance*

| | 1Q09 | YTD |
|---|---|---|
| BarCap US Aggregate Bond (Broad Bond Market) | 0.12% | 0.12% |
| BarCap Intermediate Treasury | -0.29% | -0.29% |
| BarCap Municipal | 4.22% | 4.22% |
| BarCap US Corporate | -1.93% | -1.93% |
| BarCap US Corporate High Yield | 5.98% | 5.98% |

The broad bond market was slightly positive (up .12%) during the quarter. The Corporate High Yield and Municipal Bond sectors were the strongest performers of the indices noted above. Many believe that the municipal bond space continues to look attractive with favorable tax-free yields and the impending likelihood of higher tax rates in the future. There is growing concern about the Treasury market as yields have come down in a flight to quality. If this money moves out of Treasuries and back into the equity markets, Treasury prices would come under extreme pressure.

Source: stadardandpoors.com, bls.gov, Fidelity, Rocovery.gov, Wall Street Journal and Morningstar.
The performance data shown represents past performance, which is not a guarantee of future results.
Return data is as of 03/31/2009.

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***Outlook***

While we have seen some minor improvements in the U.S. economy, most believe that we still have a lot of work to do before we start to see consistent signs of a turnaround. The fiscal and monetary stimulus that is in place will serve as a backdrop for improvement down the road, but both of these measures take time to work themselves through the economy. Also encouraging is the fact that many companies have drawn down their inventories which should lead to increased production in the future. While the economic numbers still remain mixed at best, we are finding some sources for optimism.

On the less positive side, many people are out of work with the expectation that unemployment will rise. The housing market remains under pressure, and there is renewed concern about commercial real estate values. The fiscal and monetary stimulus efforts have also given rise to concerns about inflation in coming years.

When you bring all of this together, there is a great deal of uncertainty in the marketplace. The U.S. economy, however, is resilient and has proven time and time again to have the ability to move through a crisis. This crisis should not be different.

The recent rally in the equity market has occurred at a very quick pace. There is a great deal of debate about whether this is a bear-market rally or if we have put a bottom in the market and are beginning to move forward. There is not a consensus here, and only time will tell which view is correct. Comparing the November rally to this current rally, it is important to note that we did have a pretty good rally in November and eventually gave it all back.

As we work through the first quarter earnings season, most believe that first quarter earnings will be awful. This is likely already discounted in the markets. The focus, and one of the keys to keep the stock rally moving forward, will be what executives say about the second, third and fourth quarters. In other words, do they see improvement in the second half of the year?

With a longer term view (2 – 3 years out), it would not be surprising to look back at the current market levels and view this as a good time to enter the market. With that in mind, it's important to note that the short term will likely be volatile.

Many investors are looking for an entry point, but it's not going to be easy to enter at the bottom of the market. Having an investment plan, remaining patient, and dollar cost averaging into this market seems to be a reasonable approach.

With the volatility that we've seen in the market, it's easy to get distracted from a long-term investment plan. Now is a good time to review your investment goals and the asset allocation that you have in your portfolio.

If you would like help with establishing an investment plan or would like to schedule a portfolio review, please give us a call.

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