MURRAY
INVESTMENT MANAGEMENT

4th Quarter 2008 Update

Economic Review

The National Bureau of Economic Research officially announced that the U.S. economy entered into a recession in December of 2007. As such, we are over 12 months into a recession, and if the recession continues as expected into 2009, this will be the longest recession since the contraction that began in 1929.

The slowdown is largely attributed to a weakening housing market, a lack of available credit and a general unwinding of debt (deleveraging) by both businesses and consumers. These factors have led to a pullback in consumer and business spending and massive layoffs throughout the country.

We have seen 12 straight months of job losses, and the unemployment rate rose to 7.2% in December, the highest level since 1993. With consumer spending accounting for approximately 70% of our nation's economic growth (GDP), the weakening job market is dramatically impacting the economic slowdown. Many expect the employment picture to continue to weaken throughout 2009.

In response to the slowdown, the Federal Reserve cut interest rates to a 0% - .25% range in December to stimulate borrowing and growth in the economy. These are historically low levels, and the Fed has indicated its intention to keep rates low for the near term. These cuts and other measures implemented by the Fed indicate its intention to use all available tools to promote price stability and economic growth.

Additionally, the Federal Government has responded to the economic crisis with the $700 billion Troubled Asset Relief Program ("TARP") and is currently putting together a substantial fiscal stimulus plan that includes tax cuts and Federal spending.

Equity Market Performance

	4Q08	YTD
S&P 500	-21.94%	-37.00%
MSCI EAFE (International index)	-19.95%	-43.38%
FTSE NAREIT Eq REIT (Real Estate)	-38.80%	-37.73%
Dow Jones AIG Commodity	-30.04%	-35.65%

The most commonly followed equity asset classes (domestic, international, real estate and commodities) delivered negative returns during the 4th quarter and for the full year 2008. During the 4th quarter, in particular, the equity markets produced extremely volatile returns as fear seemed to take control of the markets.

The S&P 500 and the Dow Jones Industrial Average posted their 3rd worst performing years ever during 2008. Before a year-end rally, the S&P was down over 50% from its October 2007 peak and had erased its gains from its most recent bull market (2002 – 2007).

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

The broad International markets underperformed the Domestic markets during the year but outperformed for the quarter. In the alternative investment space, both Commodities and Real Estate produced poor returns for the quarter and the year.

Domestic Market Sector Performance

S&P 500 Sector	% S&P 500	4Q08	YTD
Telecommunications Services	3.83%	-2.86%	-33.62%
Utilities	4.23%	-11.94%	-31.55%
Health Care	14.76%	-12.72%	-24.48%
Consumer Staples	12.85%	-13.54%	-17.66%
Energy	13.31%	-21.05%	-35.93%
S&P 500		-21.94%	-37.00%
Consumer Discretionary	8.38%	-23.43%	-34.73%
Industrials	11.06%	-24.66%	-41.52%
Information Technology	15.30%	-25.99%	-43.68%
Materials	2.99%	-31.43%	-47.05%
Financials	13.29%	-37.64%	-56.95%

All sectors in the S&P 500 were negative for both the quarter and the full year 2008. The more economically sensitive sectors (Materials, Technology and Industrials) performed worse than the less economically sensitive areas (Health Care and Consumer Staples). Investors typically flock to the perceived safety of Health Care and Consumer Staple names when the market is under pressure. The Financial sector was the worst performing sector during the year as many of the names in this sector were significantly impacted by the credit crisis. Also, the significant correction in the price of oil contributed to weak performance in the Energy space.

Bond Market Performance

	4Q08	YTD
BarCap US Aggregate Bond (Broad Bond Market)	4.58%	5.24%
BarCap Intermediate Treasury	6.45%	11.35%
BarCap Municipal	0.74%	-2.47%
BarCap US Corporate	3.98%	-4.94%
BarCap US Corporate High Yield	-17.88%	-26.16%

Source: stadardandpoors.com, russell.com, nber.org, bls.gov. , federalreserve.gov, Wall Street Journal, Morningstar.
The performance data shown represents past performance, which is not a guarantee of future results.
Return data is as of 12/31/2008.

The broad bond market delivered positive performance for both the quarter and the year. As investors moved assets to the safety of U.S. Treasury Bonds, this area of the market performed extremely well with the long end of the Treasury curve performing particularly well during the year. Conversely, corporate bonds and the more risky, high yield sector were down -4.94% and -26.16%, respectively, for the year. Concerns about the economic environment and the financial crisis weighed heavily on this area of the bond market.

Outlook

The economy will likely continue to slow through most of 2009. Poor economic numbers and weak corporate earnings should be expected in the near term with the possibility of continued weakness throughout the year. An improving employment outlook will be very important to an economic rebound. It's expected, however, that the unemployment rate will rise in 2009 with continuing job losses. Consumer spending has, however, been given a boost by the drop in gas prices.

To get the economy back on track, we need to see an improvement in consumer sentiment and consumer spending. In addition, economic improvement will be evidenced by restored investor confidence, more freely flowing capital and housing price stability.

To promote this recovery, we are seeing a concerted effort from the Federal Reserve and the U.S. government. As mentioned above, the Federal Reserve has lowered rates while the Federal Government is planning a significant fiscal stimulus package that includes tax cuts and government spending. The fiscal stimulus package is estimated to reach $750 billion - $1 trillion dollars. While neither the fiscal or monetary stimulus will have an immediate impact, both will contribute to laying the groundwork for future economic growth.

With this economic backdrop, we should expect continued volatility in the capital markets. There is a healthy debate over how much of the bad economic news is already priced into the equity markets and whether or not the market has bottomed. It's important to note that equity markets typically anticipate an improving economy, and if we use historical performance as our guide, the market could start to perform better before the economy improves.

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.

Source: stadardandpoors.com, russell.com, nber.org, bls.gov. , federalreserve.gov, Wall Street Journal, Morningstar.
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