

Murphy Capital Management

Year-End Review

January 2008

Enclosed is your year-end summary for 2007. As all investors are aware, the markets throughout the year, have displayed extreme volatility fueled by sub-prime mortgage concerns, rising oil and commodity prices, a weakening housing sector and continued geopolitical uncertainties.

For the year, the S&P 500 rose 3.5% (excluding dividend reinvestment) but the financial stocks, REITS and income oriented investments generally did not fare nearly as well due to concerns about the general deterioration of the credit markets.

The year 2008 ushers in a continuation of concern for the health of the overall economy and the prospect of a recession. Worries center around additional disclosure of losses associated with the mortgage market, an overly stretched consumer, a growing budget deficit, record high-energy prices and a change in political direction in the November elections.

With investor confidence continuing to worsen, the S&P 500 is trading below 14 times the 2008 estimated earnings per share, compared to a long-term historic average of 16 times earnings per share. In short, the broad equity markets look relatively inexpensive.

We do not anticipate a severe recession, and do not look for significant deterioration in equity prices. Given the pro-active measures of the Federal Reserve to lower interest rates and inject additional liquidity into the economy, we feel we will see the beginnings of an economic recovery sometime within the second quarter of 2008.

Given this economic stance, we continue to maintain current asset allocations and would use any additional market weakness to add to select sector representation. In addition, market volatility could continue and therefore we encourage you to take a longer-term view of your portfolio.

In summary, we believe 2008 will continue to provide investors a moderate but competitive total return. As always we thank you, our most valued asset, for your continued confidence in our management of your funds.