

Murphy Capital Management
Second Quarter Update
July 2009

We believe the financial markets are looking beyond 2009 in anticipation of improving economic news. This would advance our thesis that the economy is starting to stabilize and a recovery could be shaping up for 2010. This would also help to explain the stock market's advance since March, which has recently been interrupted by several bouts of selling. The economy will need to deliver, in order to sustain the recent rally and any subsequent advances in equities.

The sharp declines in the housing market appear to be leveling in many regions of the country. However, our sense is that this ailing sector will have to undergo additional bottoming out before a slow and uneven recovery can take hold. We think any meaningful housing recovery will not take place until 2011 or 2012.

The U.S. economy is mixed. Retail sales are improving after several months of declines. In addition, orders for large-ticket items (such as machinery) are slightly higher as well. Although at better levels than in 2009, industrial production is still faltering, and the number of new unemployment claims continues to remain uncomfortably high. However, it is important to keep in mind that the employment report is a lagging indicator. This means that improvement could already be underway, but it would not be reflected in the latest reports, due to the backward looking nature the government uses to track unemployment claims.

With the Dow Jones Industrial Average showing a negative return and the Standard & Poors 500 Index just slightly positive for the first six months of 2009, the markets are clearly signaling that an earnings recovery will need to occur before stock prices can move higher.

We continue to advocate patience, and a cautious investment posture as we move through this volatile recovery process. We are emphasizing broader portfolio diversification, some inflation-indexed investments such as Treasury Inflation Protection bonds, precious metals and commodity producers. We continue to seek out higher dividend investments as a means of providing greater total return.

As always, please do not hesitate to call us should you have specific questions regarding your investments, your investment objective or your asset allocation.

Sincerely,

John J. Murphy
President

Peter J. Lewis
Partner