

Murphy Capital Management

First Quarter Update

April 2009

While the first quarter of 2009 closed with all the major market indices lower, the final two weeks witnessed a sizable recovery from earlier market lows and a more optimistic tone in investor sentiment.

Certainly, it appeared that the broad market declines in the first two and a half months of 2009 was the result of mixed messages coming out of Washington and a continuous stream of poor economic news coupled with a lack of sound corporate leadership.

So what changed to stem the decline and cause investors to rethink their overwhelming negative philosophy? Well, one change appeared to be a perception that the President was getting the message that Main Street can not be fixed until Wall Street recovers. In addition, addressing the toxic asset issue finally took on a higher priority and new measures were introduced that could have a positive outcome. Another encouraging factor included larger commercial banks indicating that their operations were beginning to see signs of positive revenue generation and that paying back TARP money in a timely fashion was being considered. The final contributing factor stemmed from the markets pricing in too much pessimism and therefore, a market rally was technically overdue.

We believe that the markets could experience some short to intermediate term volatility based upon weak corporate earnings and rising unemployment. However, we do anticipate that further positive economic signs could begin to surface later in the third quarter of 2009.

As the economy improves we expect that fundamentals, rather than Washington headlines will shape market direction. Also, since there is a substantial amount of money on the sidelines, we may witness sizable market moves compressed into short periods of time. This is why we have always avoided market timing in favor of proper asset allocation and sector selection.

Our portfolios benefited from the March rally, which is evidence that we are in the correct stocks and sectors. However, until clear and more sustainable economic news begins to surface, the investor needs to display patience, as periods of both market strength and weakness will certainly occur.

At this stage of the market cycle it is even more important to remain deliberate, measured and focused. When the recovery occurs we do not expect it to affect all sectors simultaneously or even to be very efficient. We do envision that the United States will lead the recovery process followed by Asia and then Europe. As a result, we are trying to position our equity exposure in both domestic and international companies that will benefit from a positive shift in economic demand.

As always, we encourage you to speak to us if you have any specific questions about your portfolio holdings or asset allocation. In the coming quarters, we look forward to a more consistent trading environment and capitalizing on future market strength.

Sincerely,

John J. Murphy
President

Peter J. Lewis
Partner