

Murphy Capital Management

Third Quarter Update

October 2009

The third quarter of 2009 saw continued optimism build that the deep and hard felt recession is possibly winding down and that positive GDP growth could be restored in the fourth quarter. In addition, important economic reports pertaining to housing, manufacturing, consumer spending and employment appear to be stabilizing and not deteriorating further. The stock market has advanced off the notion that perhaps the worst is behind us. Wall Street is hopeful that things will continue to improve as the bulk of the stimulus money starts to filter through the economy and inventories get restocked. Also the housing market continues to recover and hiring activity and corporate earnings are likely to pick up.

The mood of the market has certainly improved and a stabilization process is taking place. Although third quarter market gains were impressive, we remain realistic that this sharp pace will eventually cool down. Granted, the economic data is going to look encouraging in the near term as we bounce off such depressed 2008 levels and the stock market should respond favorably. However, we think it will be a slow and winding road to improvement as the main driver of the U.S. economy is the U.S. consumer, and it is no surprise that spending has slowed down considerably and will remain contained until consumer confidence improves.

The third quarter rally saw rising stock prices fail to correct to any meaningful degree. This in turn feeds a fear of missing out on further gains for sidelined investors holding \$3.63 trillion in money market funds. This fear of missing out on potential market gains can push stock prices even higher in the face of relatively weak fundamentals. It can even keep prices up long enough for fundamentals to catch up so that the trade becomes self-fulfilling. For that very reason, we would not be surprised to see further market gains. On the flip side, should psychology change, we could experience significant profit taking, which many investors feel is well overdue.

We are not saying that the stock market is set for an imminent collapse. On the contrary, the near-term outlook appears to be fairly favorable with easy comparison periods approaching, stimulus efforts continuing, and ultra-low cash returns driving the need to find higher-yielding assets. We feel it is imperative to remain invested in a high quality, diversified portfolio and to maintain some cash in money market funds in order to take advantage of any market correction.

We remain cautiously optimistic for the balance of 2009.

Sincerely,

John J. Murphy
President

Peter J. Lewis
Partner