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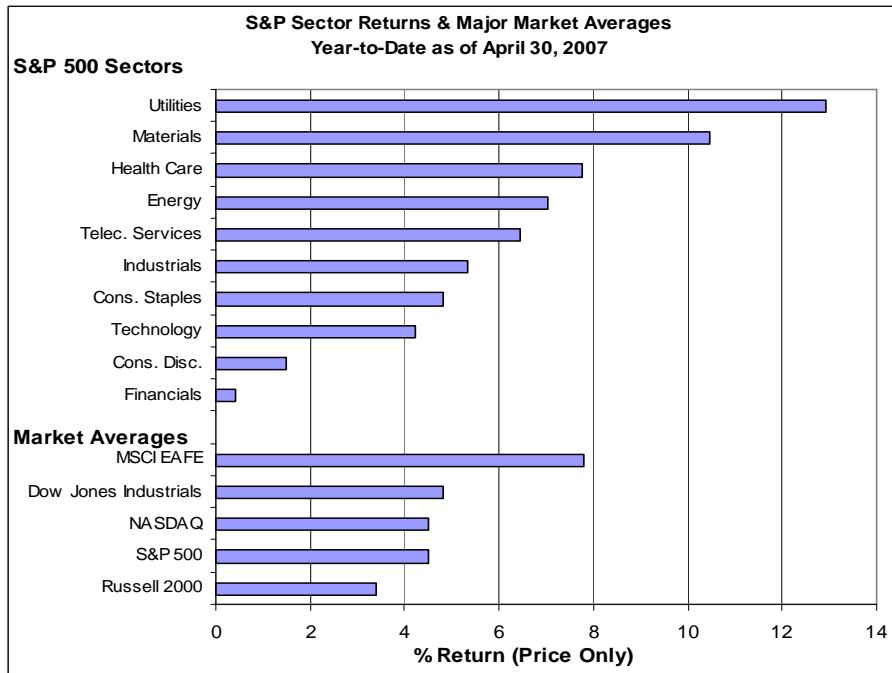
# Market Commentary

April 30, 2007

## Global Equity Markets Rally in April

U.S. and global equity markets posted surprisingly robust returns in April, with the Dow Jones Industrials piercing the 13,000 level for the first time, only six months after reaching 12,000. For the month, the Dow rose 5.7% while the S&P 500 gained 4.3% and the NASDAQ gained 4.1%. Foreign stocks climbed higher as well, with the MSCI EAFE index returning 3.9%. The primary factors behind the rally were the declining dollar raising foreign based earnings, the continuation of merger and acquisition activity (with rumors rampant of more deals to come) and first quarter corporate earnings coming in above lowered expectations. Through April 30<sup>th</sup> the majority of S&P 500 companies were exceeding estimates for the first quarter, according to Thomson Financial, and are on pace for year-over-year growth above 7%, double the size in March.

The rally in U.S. stocks in April was led by the Health Care sector, which went from a flat year-to-date return on March 31<sup>st</sup> to nearly 8% one month later. Indeed, most sectors had minimal gains before March 31<sup>st</sup> and now show respectably positive returns. Utilities, materials and telecom services continue to outperform along with Health Care. The chart below shows the year-to-date performance of the S&P 500 sectors and market averages:



The April rally lifted existing holdings in our core stocks while making the search for new values less fruitful. Fundamentally, the news around many individual stocks has not changed. Earnings for the first quarter have mostly met or exceeded targets, but estimates for the full year are not higher. From our analysis, the rally in April was influenced more by low expectations easily beaten and a declining dollar than business results.

### U.S. Economy – Recent Data Do Not Match the Equity Markets

One of our favorite expressions is “Match the story with the numbers and the numbers with the story.” The economic numbers don’t entirely match the stock market rebound, the Index of Leading Economic Indicators declined on a year-over-year basis for the third straight month, employment growth is sluggish compared to prior recoveries, housing numbers continue to look like a drag on growth for some time and business surveys, both manufacturing and services, trended below expectations. Not all data reported were bad, with business fixed

511 Congress Street, Portland, ME 04101 • (207) 774-3333

145 Exchange Street, Bangor, ME 04401 • (207) 941-2495

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investment rebounding in the quarter and inflation data beginning to show some moderation in the month. Overall, though, both lagging and leading economic data point to lower growth.

**The Declining U.S. Dollar – Helping to Lift Returns for U.S. Investors, but a Conflict for the Fed**

After mid-February, the U.S. dollar began another downward leg, as seen in the chart below. A declining dollar may pose problems to foreign companies with significant business in the U.S. when it comes time to convert earnings in dollars back into home currencies. Conversely, a lower dollar can be a positive for U.S. investors with assets invested in foreign stocks or U.S. companies with meaningful foreign based earnings. An interesting twist thrown into the mix of positives and negatives is that policy makers do not want the currency’s decline to be precipitous. The Federal Reserve could therefore feel constrained from lowering rates if the economy and dollar weaken concurrently, even if inflation had also fallen. The Fed might have to protect the dollar with higher interest rates, to make our currency relatively more attractive to foreigners, despite the negatives for growth and markets.

<b>Market Statistics</b>		
<b>April 30, 2007</b>		
	Level	YTD%
Dow Jones	13,063	4.8%
S&P 500	1,482	4.5%
NASDAQ	2,525	4.5%
MSCI EAFE	2,225	7.8%
Oil	\$65.33/bl	
Lehman Agg Bond Index	2.1%	
Federal Funds Rate	5.25%	
6 Mos Treasury Bill	4.99%	
2 Year Treasury Note	4.59%	
5 Year Treasury Note	4.51%	
10 Year Treasury Note	4.62%	



Chart courtesy of StockCharts.com

**Conclusion – Stock Prices Moved Higher; Economic Fundamentals Unchanged**

The stock market rally that began in mid-March added to clients’ first quarter equity returns with further gains in April. The rally has also made finding values in new stocks more challenging. Economic news and earnings data for the year ahead have not risen with stocks, which indicate to us a need to be selective in new purchases and active in the management of existing holdings. Meanwhile, a focus on appropriate allocations relative to risk tolerances is recommended, along with patience toward better entry points for stocks.

*Christopher H. Lyford*

Christopher H. Lyford, CFA  
Vice President, Chief Investment Officer

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