ACADIA TRUST N.A.

Trustees and Investment Advisors

Market Review

March 31, 2007

Dear Clients & Friends,

U.S. equity markets ended the first quarter in positive territory despite a marked increase in volatility in the last five weeks. For the quarter, the S&P 500 Index rose 0.2% and the Dow Jones Industrials Average gained 0.3%. Foreign stocks rose 3.5% as measured by the MSCI EAFE Index. Bonds generally outperformed stocks as intermediate rates declined from year-end; the Lehman Aggregate Bond Index gained 1.5% for the quarter.

The predominant factors weighing on the minds of investors continue to be whether moderate economic growth is sustainable and whether the Fed will lower short-term interest rates. The Fed remained front and center in the news with its watchful eye on the balance between slowing economic growth, particularly related to housing, and higher than desired inflation. As discussed throughout this letter, we continue to focus on the outlook for corporate earnings and economic data rather than on short-term trends and headlines.

Major Market Averages & Yields
March 31, 2007

	Level	YTD%
Dow Jones	12,354	+0.3%
S&P 500	1,421	+0.2%
NASDAQ	2,421	+0.3%
Oil		$65.87/bl
Lehman Agg Bond Index		+1.5%
Federal Funds Rate		5.25%
6 Mos Treasury Bill		5.06%
2 Year Treasury Note		4.58%
5 Year Treasury Note		4.54%
10 Year Treasury Note		4.65%

<u>U.S. Economic Growth: Clearly Moderating, Housing Retrenchment Continues</u>

Economic growth in the fourth quarter of 2006 was recently finalized at an annualized rate of 2.5%. Estimates for first quarter growth in 2007 are trending lower, primarily because of continued weakness in residential investment but also somewhat unexpectedly from lower than anticipated business spending.

Problems in the housing sector became more evident in the first quarter as fallout from excessive subprime lending became more visible. Lower income homebuyers or those with poor credit histories who used subprime loans accounted for 20% of new mortgages in the past year and the data indicate that many are feeling the extra pinch now. In February the rate of subprime mortgages past due rose to 12.5%, the highest level since 2003. Conventional mortgage default rates have yet to show any unusual changes, however. The inventory of new and existing homes for sale turned higher again during the first quarter, to over 4.2 million houses, or the equivalent of over eight months of home sales. Home price appreciation moved into negative territory for the first time in ten years, as measured by the S&P/Case-Shiller Index and the share of all mortgage loans in foreclosure rose to 0.54%, the highest level in 35 years according to the Mortgage Bankers Association.

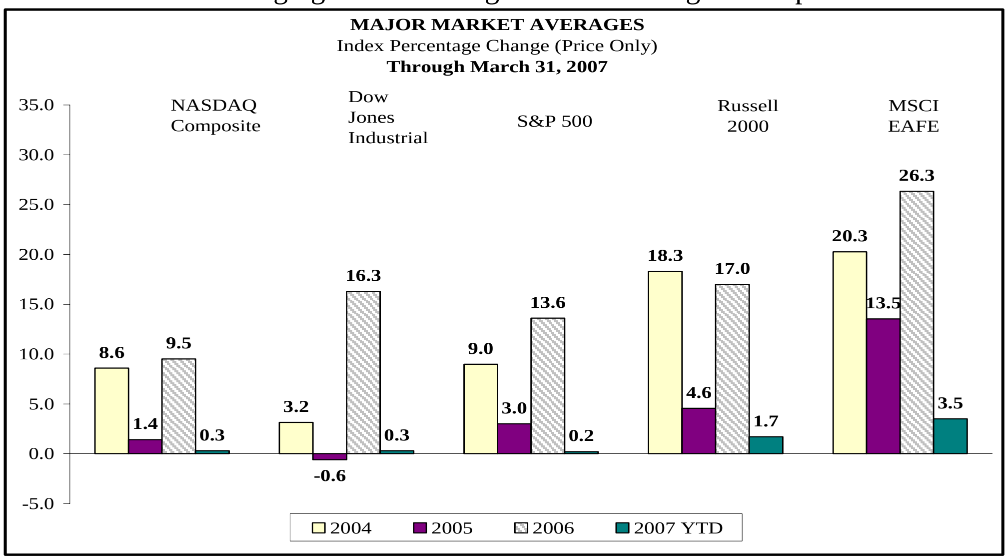
Partly because of this decline in home values, mortgage equity withdrawals have slowed significantly over the past five quarters from an annualized rate of $900 billion to $400 billion. Consumer spending, which remained solid in the fourth quarter of 2006, slowed in the first quarter. Despite warm weather in the early winter, retail sales rose only 0.1% in the latest month and are up 3.2% over the past twelve months, compared to the 6.5% average annual growth of the prior three years. More broadly, the Index of Leading Economic Indicators declined 0.5% in February after a 0.3% decline in January, the worst two month pace since January 2001.

Much has been written in recent weeks as to whether the U.S. economy is at risk of falling into recession or if it is likely to continue to head toward what has been characterized as a "soft-landing." Few have accurately predicted recessions, which are defined as two quarters of negative economic growth. We present the data above to point out that headwinds exist for the economy and earnings in the year ahead. **In our view the correction in housing is likely to linger for some time, but we apply this analysis in our investing and not in forecasting the economy.** What matters to us is the effect of moderating economic growth on corporate earnings in our stock-by-stock research. As we describe more fully in the next sections, our bias in this market toward large company quality stocks with dividends and stable earnings persists. We remain optimistic that the rise in volatility in the first quarter will ultimately create opportunities for our clients.

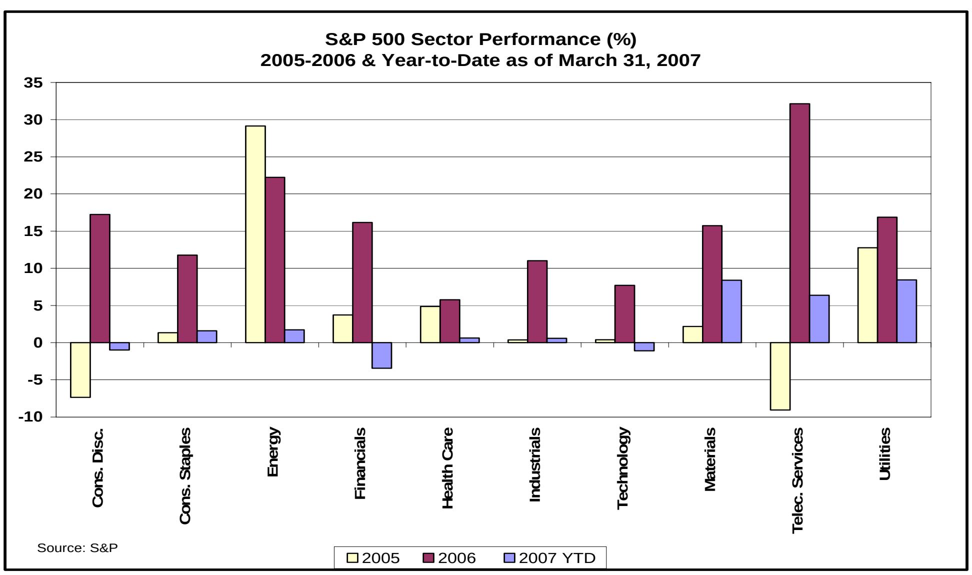
Equity Markets – Focus on Earnings Expectations vs. Fundamentals

Most U.S. indexes ended the first quarter slightly in positive territory, while foreign stocks fared better. The chart below presents returns for the major market averages in the first quarter as well as for the past three years. What the chart does not show is the road taken to arrive at the final returns for the year-to-date in 2007.

Prior to the end of February the markets were moving along respectably, with the S&P 500 up 2.5% on a total return basis. However, on February 27th slowing growth concerns hit the Chinese stock market, resulting in its largest decline in ten years and triggering a global sell-off in which many markets lost the most they had since September 2001. Investor sentiment in the U.S. market shifted from a high level of complacency to a level of fear not seen since last summer. This seesaw of anxiety and optimism continued through quarter end. A degree of investor confidence did return in the third week of March, giving the S&P 500 its best one week return in four years with a 3.5% increase and bringing market averages back from negative to positive returns for the quarter.



Utilities and materials stocks led the S&P 500 for the quarter, with both rising more than eight percent as seen in the chart below. The gains in each were as much a product of their yields and speculation of leveraged buyouts as of changes in earnings or prospects. Other than telecom service stocks, which gained over six percent after a strong year in 2006, few other sectors did particularly well in the first quarter. Financial stocks were the weakest in the quarter as concerns grew about their earnings due to subprime lending and the inverted yield curve.



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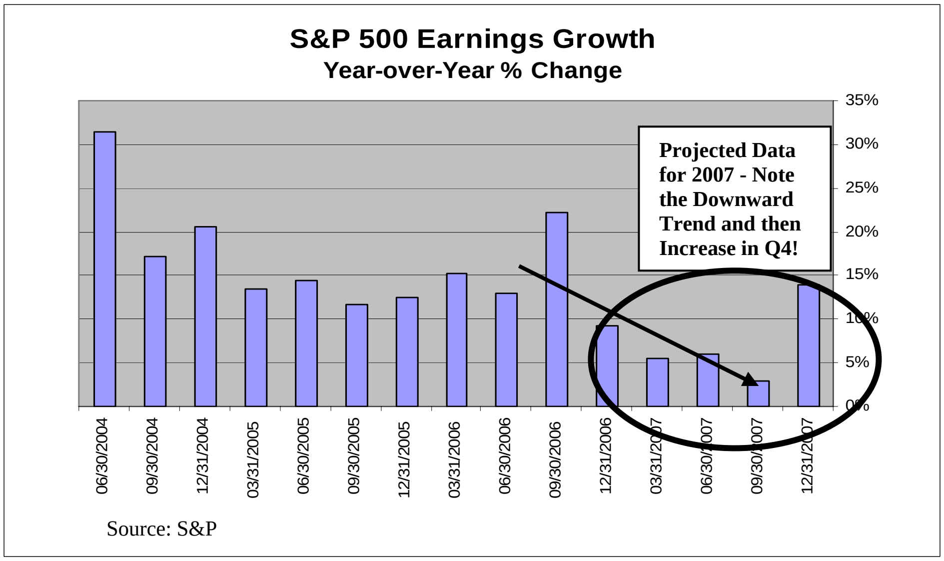
The resurgence of U.S. and foreign equity markets at quarter's end, without any upward revision of earnings estimates, put stocks further out of reach in many categories from a value perspective. The weakness prior to the end of March did allow for purchases in several sectors, notably diversified financial service stocks. **We expect to find additional buying opportunities in the quarters ahead should earnings expectations come down in good stocks that offer long-term value at lower prices.** We continue to believe that expectations are too high in many stocks. The chart below shows estimated earnings growth for 2007 compared to actual data for prior years.

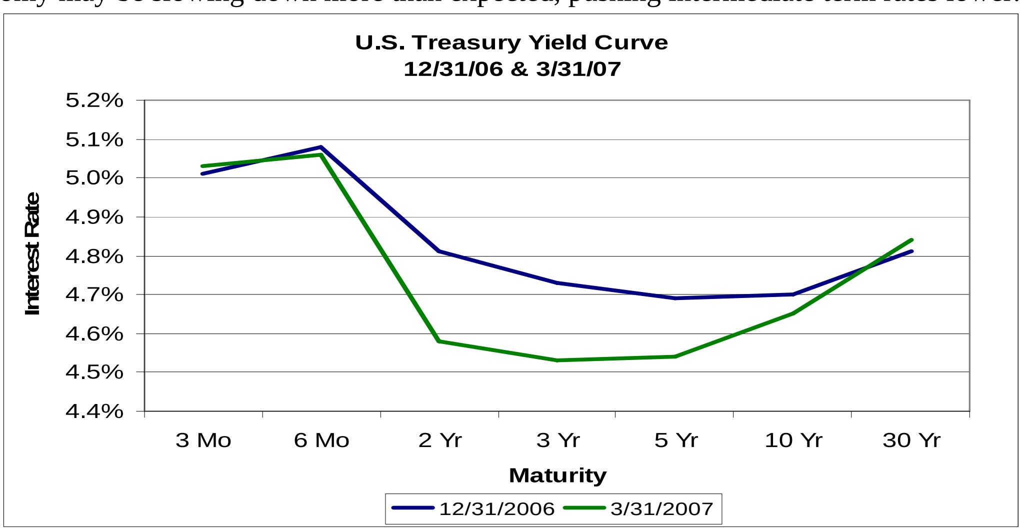


As the chart shows, S&P estimates that the rate of 2007 earnings growth will decline on a year-over-year basis, from double-digit increases to a rate of five percent or lower. However, S&P also estimates that there will be a 14% increase in the fourth quarter. This "back-loaded" earnings perspective for the fourth quarter of the year is dependent partly on the Federal Reserve cutting interest rates and partly on a re-accelerating economy. In our stock by stock research process, we place little weight on predictions of economic growth but maintain an awareness of its importance for companies' year-end earnings numbers meeting expectations.

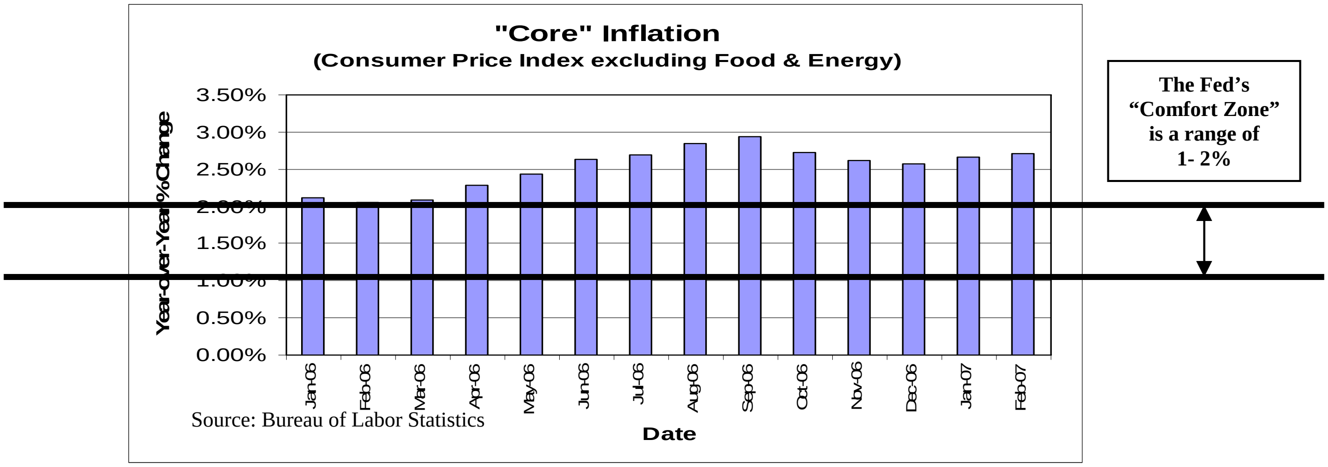
We are spending significant time looking into whether stocks we hold can meet these year-end expectations and are focused on the stability of earnings for new purchases in the current environment.

Fixed Income – Cash and Short-Term Remain Preferable Over Longer-Dated Maturities

Interest rates declined in the one to seven year maturity range during the quarter. The chart below shows the changes in rates over a range of maturities. Concerns over subprime lending, and housing in general, raised fears that the economy may be slowing down more than expected, pushing intermediate term rates lower.



In addition, the most recent meeting of the Federal Reserve added to speculation that Mr. Ben Bernanke and his peers at the Fed may lower short term rates sooner rather than later. Futures markets put those odds at about 50%. However, as we wrote at year-end, the Fed is in a difficult position since inflation data continue to be outside of their so-called “comfort zone.” The chart below shows inflation as measured by the Consumer Price Index (CPI) excluding more volatile food and energy prices, a measure known as the “core” rate of inflation.



The trend in inflation data has not yet headed below the high end of the Fed’s comfort zone. Moreover, including volatile components such as food and energy, or housing rental rates, inflation could continue to be a problem for the Fed. Gasoline prices have rebounded sharply ahead of the summer driving season and the housing related component of the CPI may rise further as consumers seek shelter in apartments rather than new homes.

The present situation in the bond markets with short-term rates higher than intermediate or longer term rates has led us to hold more cash in money market yields rather than rush to reinvest in bonds. We balance this perspective with the fact that short term rates could change quickly if the Fed decides to lower rates. We continue to find relative attractiveness in Agency and Municipal bonds over Corporates and Treasuries.

Summary – Value Opportunities Can Result from Higher Volatility

One might conclude from the data presented in this letter that our view is pessimistic, but that is not the case. The economic and earnings numbers have weakened, but we continue to apply active management and our stock-by-stock discipline diligently in search of value for our clients. More volatile markets and earnings uncertainty have offered opportunities that led us to be more active in taking gains and making purchases during the quarter.

Along with this activity, our portfolios continue to be defensively positioned in larger capitalization over small and mid-cap equities and with cash on hand for future purchases. The view that large-cap, quality stocks will fare better in the year ahead has become a popular one, however. Recent press articles have pointed to one reason for this migration: small-cap stocks are more expensive now than at their 2000 peaks, particularly compared to large-cap stocks. While our valuation work continues to point to relative value in larger-cap stocks over other areas, we keep a watchful eye for opportunities in small, mid cap and foreign stocks should quality names at lower valuations become available.

We believe that a better stock buying environment could be ahead compared to the past few quarters as higher volatility can create overlooked value opportunities. In addition to monitoring existing stock holdings and screening for future ones, we remain focused on providing a breadth of services including financial planning, trust services, retirement planning and other wealth management activities. As always, we look forward to our upcoming opportunities to meet with you and review your portfolios or other financial matters.

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