

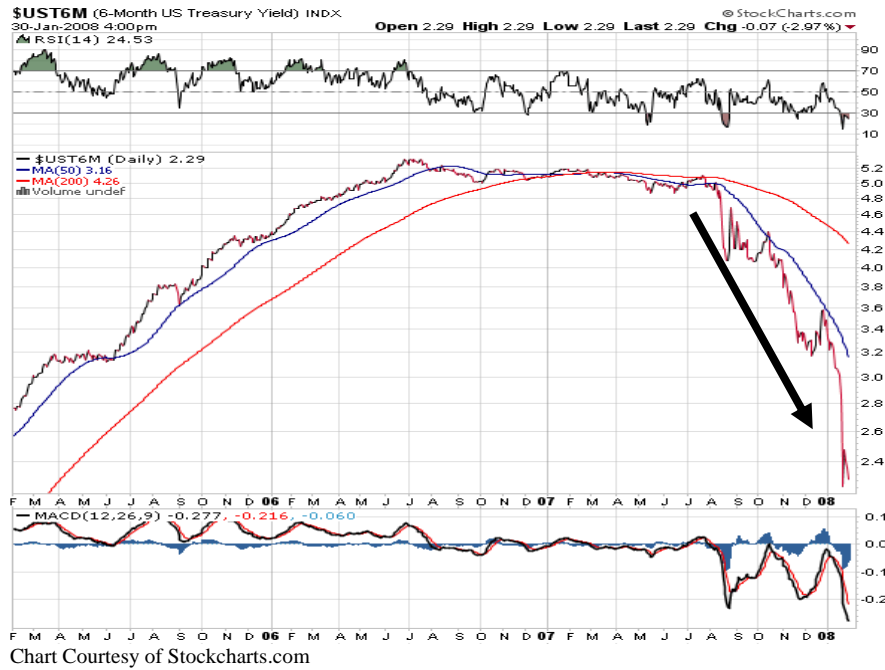
Market & Wealth Management Update January 31, 2008

Global Markets Decline Early in 2008, Prompting Fed Rescue Plan

There is an expression in Maine that says “If you don’t like the weather, wait a minute.” A similar sentiment could be made about the financial markets each trading day in the first month of 2008.

Equity and bond markets around the world changed course many times during January, with weaker economic data, lower corporate earnings, and an unprecedented response by the Federal Reserve. Volatility in the financial markets became even more pronounced in January than in the latter part of 2007. The high point of the skittishness came near the time of an emergency 0.75% rate cut by the Federal Reserve on January 22nd, when volatility had hit its peak and news that a trader at Société Générale had entered into rogue trades in the billions of dollars. The emergency rate cut was followed by a 0.50% cut at their regular meeting on January 30th. The remarkable drop in U.S. interest rates is shown in the chart below illustrating the six month Treasury Bill rate.

<i>Market Statistics</i>		
<i>January 31, 2008</i>		
	Level	YTD%
Dow Jones	12,650	-4.6%
S&P 500	1,378	-4.7%
NASDAQ	2,390	-9.9%
MSCI EAFE	2,044	-9.3%
Oil (WTI)	\$90.04/bbl	
Lehman Agg Bond Index		+2.0%
Federal Funds Rate	3.00%	
6 Mos Treasury Bill	2.05%	
2 Year Treasury Note	2.09%	
5 Year Treasury Note	2.76%	
10 Year Treasury Note	3.59%	



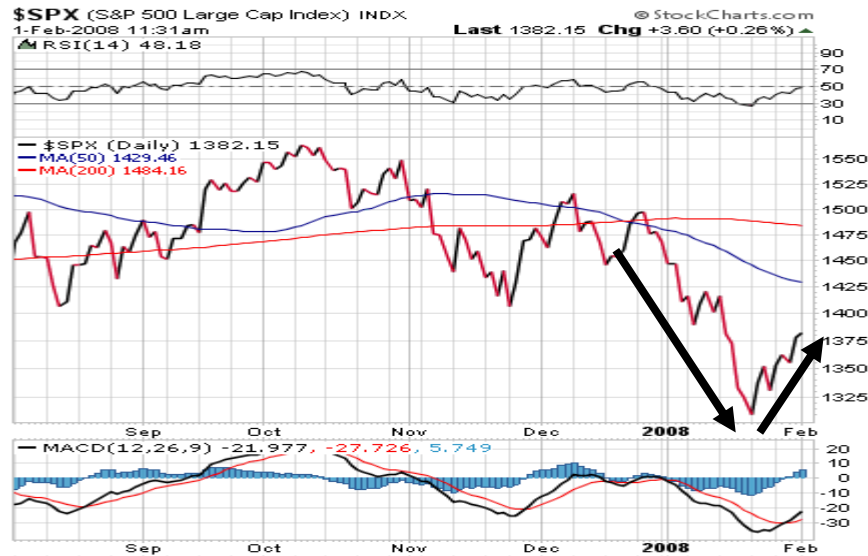
U.S. equity markets, along with most global markets, declined in January, but the daily activity included strong gyrations, including a rebound from the lows after January 22nd. At their worst, the U.S. equity markets were down as much as 11% in the month but finished the month off 4.7%. Since its October 17, 2007 peak, the S&P 500 is now down 11%, the NASDAQ is down 15%. Small and mid-cap stock indexes are down even more.

The chart at the top of the next page shows the path of stocks in the early part of this year. After each of the Fed’s cuts, stocks in sectors down the most were the leaders, particularly in the consumer discretionary and financials categories. Given an economic outlook impacted by an obvious slowing in the consumer sector and ongoing problems in housing, we view the strong rebounds in stocks of these categories as likely to be fleeting.

Drawing the strong responses by the Fed was the threat of stress to financial markets and a concern that the U.S. economy was heading for, or already in, a recession. The fear by many around the world is that a U.S. recession will pull down stocks and economies globally, which counters the view held by some that the global markets had “de-coupled” from the U.S. economy. Overall, U.S. economic data reported in 2008 has been pervasively weak,

with the exception of a recent report on durable goods orders. The data has not been altogether surprising to us when looking at the details. For example, data on weakness in employment, declining housing activity, rising business inventories, and mounting credit card delinquencies have been available for some time.

What's new and significant is that investors are finally acknowledging the evidence of risks of a slowing economy on profit margins and corporate earnings.



As earnings become more visibly affected by the risks noted above, investors can make better choices about which stocks to own, favoring those with stable earnings to stocks that have unrealistic earnings expectations.

Meanwhile, attractive purchase opportunities are becoming more plentiful. The critical point as we see it is to remain patient for the best options rather than buying stocks that lack sufficient catalysts and stable earnings, while maintaining the discipline to exit overvalued stocks.

For fixed income portfolios, the recent drop in interest rates has solidified our focus on finding higher quality yields in government agency or corporate bonds over cash. One piece of good news on the fixed income front is that credit market concerns have eased with respect to the overall liquidity of the markets after the major interventions by the Fed and other countries' central banks. The reduced fear on the bond market is evident from the downward direction of LIBOR, which measures the rates banks lend to one another globally and is a measure of overall global credit market liquidity. LIBOR has fallen from 5.7% in August to 3.1% at month end.

Now even more than before year-end, equities with stable earnings and above market yields or high quality agency or corporate bonds continue to be a better place to invest idle cash. Possible additional rate cuts by the Fed will more than likely reinforce this strategy in the months ahead.

With the recent volatility we have seen more attractively priced opportunities after months of inflated valuation levels. For our clients, we continue to add quality stocks at the right prices and sell stocks at targets.

Christopher H. Lyford

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

Acadia Trust, N.A. is a Maine-based wealth management firm, with a research-based, value-oriented style of equity investing and a high quality approach to fixed income investing. As a trusted advisor to our clients, we provide portfolio management, trust, estate, financial planning and retirement plan services throughout New England.

At Acadia Trust, we distinguish ourselves through our disciplined investing, our team-oriented approach and our dedication to providing a client experience "second to none." For more information, please contact Tamara Gifford at (207) 775-3820 for information.