



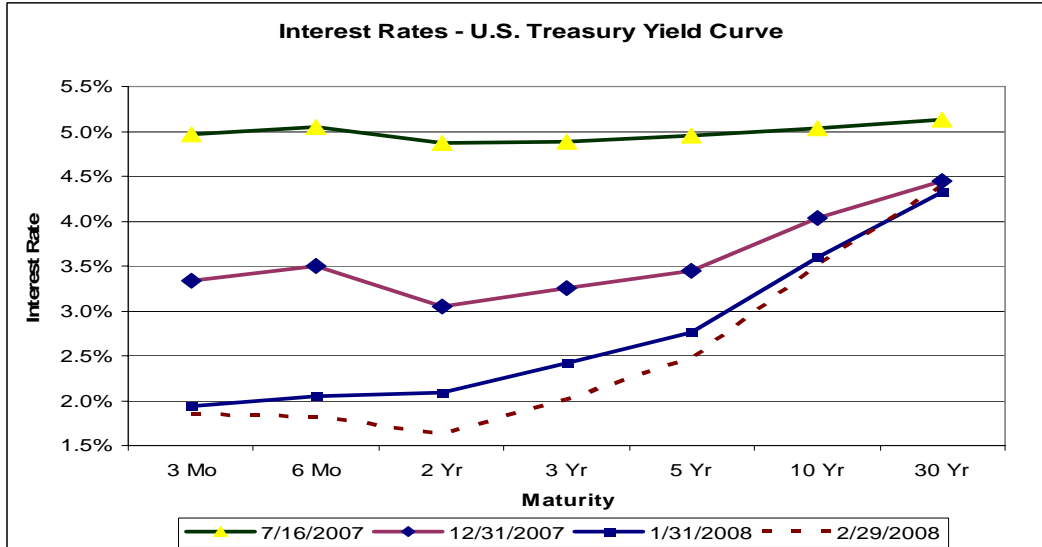
Trustees and Investment Advisors

Market & Wealth Management Update

February 29, 2008

Credit Markets, U.S. Dollar and Stocks Face More Pressure in February

Continued concern about the state of the U.S. economy has prompted policy makers to reiterate their intent to provide stimulus through lower interest rates and willingness for additional policy responses. The signal of a lower Federal Funds rate by the Fed in March pushed short term Treasury rates down even more in February, as seen in the chart below. However, intermediate and longer term rates have not declined nearly as much in comparison.



The fact that intermediate and longer term rates have changed little is important since most consumers' borrowing costs are based on rates such as the 10-year Treasury. Lower short-term rates can act as a stimulus to the economy, but not in the short term, and the problems facing the housing market will not be alleviated as soon if mortgage rates are not declining. **Despite the lower rates engineered by the Fed, the national average for mortgage rates have returned to where they were before the Fed started lowering rates in September in 2007.** As of month end, 30 year fixed rate mortgages were 5.80% nationally compared to 5.45% the month before and 5.73% three months ago. The increase reflects both the lack of change in the yield curve and much tighter lending standards.

Lower Rates Push Down the U.S. Dollar Further in February

The downward movement of short-term interest rates and an increasing perception that the U.S. economy is at greater risk of falling into recession accelerated pressure on the dollar in February, continuing a trend that started years ago. Over the past six years, the dollar has fallen more than 40% against the European currency (euro) and 20% to a basket of currencies. Much of the recent decline reflects the less attractive interest rates in the U.S. relative to other countries rates, as well as a concern about deficit spending.

A related effect from the falling dollar is the rising price of oil, which was seen in February with the surge in crude's price from \$90 per barrel to nearly \$102 at the month's end. Many expect that the price of oil will fall in the months ahead if the global economy slows, but the falling dollar could work against that hypothesis. Oil prices and the dollar are related since the majority of the world's oil sales are conducted in dollars. Sellers of oil require a higher price when they are being paid in a declining currency. Oil industry analysts estimate that effects from the falling dollar and speculation in commodity markets are adding over \$20 per barrel to the price of oil.

Market Statistics February 29, 2008

	Level	YTD%
Dow Jones	12,266	-7.5%
S&P 500	1,330	-9.5%
NASDAQ	2,271	-14.4%
MSCI EAFE	2,070	-8.1%
Oil (WTI)	\$101.04/b1	
Lehman Agg Bond Index		+1.8%
Federal Funds Rate		3.00%
6 Mos Treasury Bill		1.81%
2 Year Treasury Note		1.62%
5 Year Treasury Note		2.47%
10 Year Treasury Note		3.51%



There is concern that the dollar could lose its status of the world's currency of choice. While the fundamentals affecting the dollar are weakening and the trend for the currency could well be lower in years ahead, its place as the currency of choice globally remains secure in the short-term for many reasons. For one, the dollar comprises over two thirds of other countries' holdings of investment assets. The migration to a different currency, such as the euro or yen, could not happen quickly without a precipitous decline in the value of those countries' investments.

Additional Events in the Credit Markets Bear Further Vigilance

Another noteworthy development in February was the continued tightening of credit markets in several respects. First, municipalities faced an unexpected increase in financing costs with the abandonment of creditors to the auction rate securities markets, a small but important aspect of the way that municipalities finance projects. The effect of the withdrawal by participants in these markets was a steep rise in borrowing costs from what is usually an uneventful area of the debt markets. In addition, longer term municipal debt and low quality corporate bond rates climbed to near-term highs relative to higher quality treasury rates as risk averse investors scrambled away from less certain investments. This sizable widening of yield spreads represents additional caution by investors.

U.S. Equity Markets Decline in February

Equity markets reacted negatively to the above events in February, falling 3.5% as measured by the S&P 500. What pressured stocks more than events in the credit markets, however, were forecasts by blue chip companies such as Cisco, Office Depot, and AIG of lower earnings given present conditions in the economy and debt markets. We continue to believe that earnings estimates for many stocks will decline due to the weaker economy. Wall Street analysts tend to lag the data on earnings and react to changes rather than anticipate them.

We have been successful in avoiding pitfalls where consensus earnings expectations were analytically too high. However, stock prices can sometimes be more negatively affected than changes in earnings justify. We continue to look for quality stocks with stable earnings, growing dividends and a catalyst in the underlying business for future growth. In the meantime, we continue to favor a defensive and patient approach to the equity markets.

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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.