ACADIA TRUST N.A.

Trustees and Investment Advisors

Market & Wealth Management Update

May 31, 2009

Global Markets Continue To Advance in May

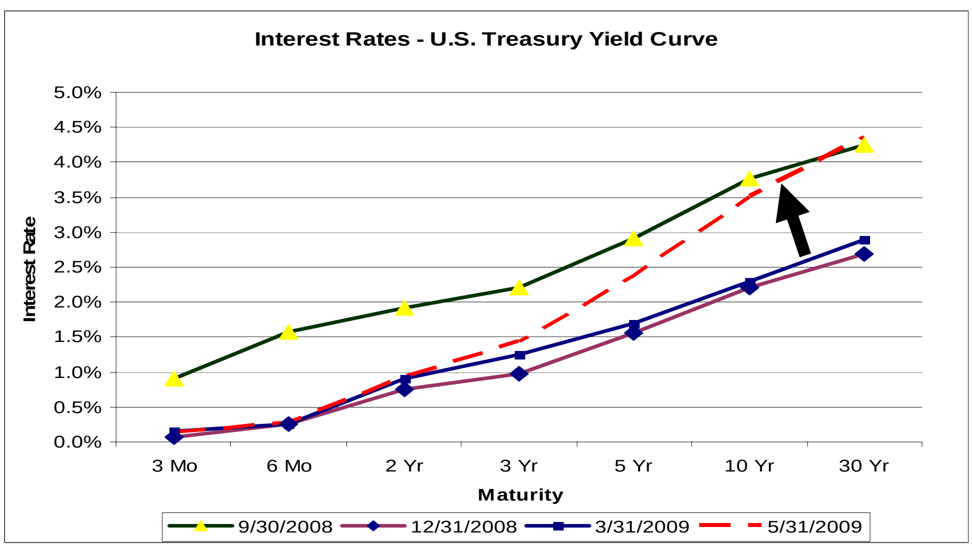
Global stock markets continued to rise in May, with a few bumps along the way, gaining 5.3% in the U.S. as measured by the S&P 500. The Dow Jones Industrial Average rose 4.1% and the MSCI EAFE Index, a measure of non-U.S. stocks, advanced even more with a 11.1% gain for the month. The technology heavy NASDAQ index led the pack in the U.S. in May and for the year, now at +12.5% for 2009. In short, the global stock market rally presses on despite a shortage of fundamental reasons, reminding us that there are not always handfuls of tangible factors behind gains and losses in stocks. With that said, just as was the case in the late '90s and other market cycles, current fundamentals and forward valuation levels always do end up mattering. For us, either the results of companies or their outlooks have to improve much more, or the market has been too exuberant too early.

Other developments in May included the rise in interest rates and oil prices. The yield on the ten year U.S. Treasury note rose from 3.15% at the start of the month to a high of 3.70% before ending at 3.46%. One factor behind the higher rates was the large supply of new debt being issued by the U.S. to finance deficit spending and bailouts. We watch the trend in rates closely because the economic recovery, and therefore corporate profits, depends on maintaining low interest rates. Market watchers looked at the rise in rates in May as a signal that the U.S. is issuing too much new debt. There is also fear that the Federal Reserve may not be able to keep rates low with their purchases of mortgage-backed securities and U.S. Treasury's debt, implying that it may have to do even more buying. The chart below shows U.S. Treasury interest rates for several quarters over the past year.

Market Statistics

<u>May 31, 2009</u>

	Level	Year-to Date %
Dow Jones	8,500	-3.1%
S&P 500	919	+1.8%
NASDAQ	1,774	+12.5%
MSCI EAFE	1,317	+6.5%
Oil (WTI)	$66.31/bl	+48.7%
Barclays Agg Bond Index		+1.3%
Federal Funds Rate		0-0.25%
6 Mos Treasury Bill		0.27%
2 Year Treasury Note		0.93%
5 Year Treasury Note		2.38%
10 Year Treasury Note		3.46%



Source: Bloomberg

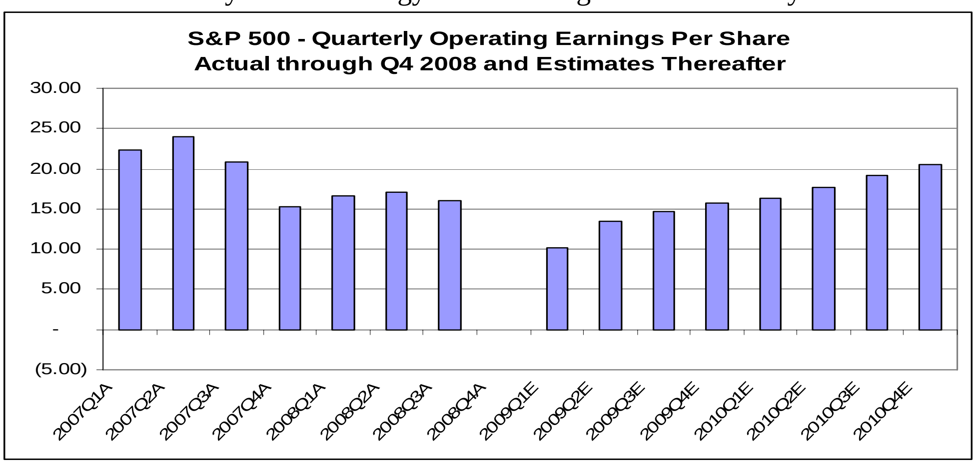
Oil prices, along with gasoline, rose significantly in May. Crude oil traded in the mid $60s per barrel as concern emerged that an end to the global recession would mean a return to much higher prices. However, fundamental data such as the large inventories of stored oil and the ongoing recession make us wonder how likely the present rise in oil will continue. Concurrent with the rise in the price of oil and interest rates was a decline in the U.S. dollar, which came under pressure because of the rising risk appetites for non-U.S. assets and the prospect of mounting U.S. government debt due to the ballooning federal deficit projected to be $1.4 trillion in 2009.

Market and Economic Trends in May

The month of May marks the third straight month of gains for global equity markets, reversing a dismal start to the year and putting most indexes in positive or near positive territory for the year-to-date. The last time that the Dow Jones Industrial Average had three consecutive months of gains was prior to the October 2007 market peak. The Dow is now up almost 30% since its March 9th low while the S&P 500 is up 25%, its largest three month gain since 1938. Some analysts are hailing a few positive economic data points as evidence that a near-term recovery is more certain. The significant increase in consumer confidence in April and "less bad" news on housing in May are examples. For the stock market an economic recovery is now already fully priced in despite a number of significant headwinds remaining. We view the enormous burden of debt in the U.S. as a problem that will take time to reduce, restraining any growth in consumer spending. Meanwhile, Americans will continue to feel the effect of lost wealth from the decline in home values, possibly leading to further thrifty behavior. On the business side, data indicates that "troubled" commercial loans are rising at a record rate while data from the FDIC showed that through Q1 2009 nearly 8% of all consumer and commercial loans in total were in distress, double the level one year ago. More banks that engaged in imprudent lending practices in large metro areas face the risk of failure.

Update on S&P 500 Earnings Estimates

On a stock by stock basis, we focus very closely on the earnings we expect companies to achieve. Since the beginning of May, following a better than anticipated first quarter, other analysts have started to raise estimates for the remainder of 2009. However, the change in their estimates so far is slight after declining massively in 2008 and would need to increase rapidly to bring stocks back to a reasonable valuation level. In fact, the S&P 500 is now more overvalued based on a forward four quarter basis for expected earnings than the peak valuations before the market high in 2007. The chart below shows the trend in the S&P 500 earnings expected through 2010. The data shown reflects the increase in expectations from 2009 onward, after the nine cent loss per share in the fourth quarter of 2008. Overall, 2009 estimated earnings are projected to be $54 per share, an increase of 9.2% over 2008. 2010 earnings are forecasted to be $74 per share, or 49% greater than 2008 levels. On a sector basis, financials, consumer discretionary and technology stock earnings are estimated by Wall Street to rise the most.



Source: S&P

Investment Strategy – The U.S. stock market is up over 30% since its lows in March, and even more for stocks in consumer discretionary, financial and technology stocks. Higher quality stocks have participated in the rally, but less than cyclical and lower quality names. Our portfolios are more heavily weighted in energy, consumer staples and industrial stocks than the early cyclical categories gaining the most up to now. We have been skeptical about the sustainability of the rapid appreciation in cyclical stocks and find prices in those categories unattractive. Our bottom up process has identified values in select stocks in recent months, but we remain measured and selective given our assessment, stock by stock, that the market valuation level is not compelling until the earnings picture more fully reflects recovery or stocks become cheaper relative to expected earnings. Meanwhile low bond yields generally give us pause before new purchases, especially in portfolios that may already be overweight in bonds, emphasizing the need for further patience while searching for stable income alternatives until rates increase.

Christopher H. Lyford

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Managing Director, Chief Investment Officer

Acadia Trust, N.A. is a Maine-based wealth management firm, with a distinctive approach based on our disciplined research process, value-oriented style of equity investing and our 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.

For more information, please contact Sam Featherstone at (207) 775-4920.

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