

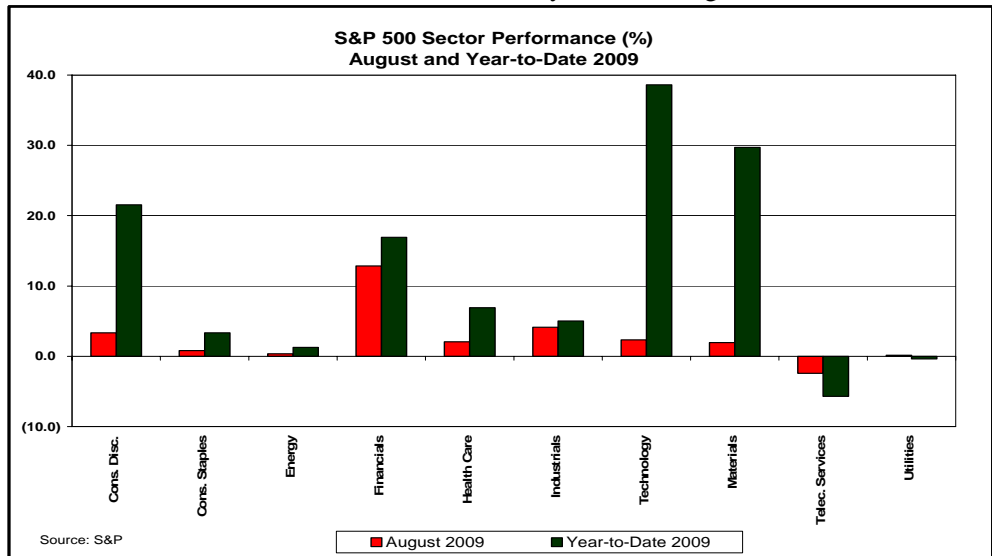
Market & Wealth Management Update

August 31, 2009

Financial Stocks Carry Market Upward in August, Despite Underlying Data

U.S. stock markets marched ahead again in August, gaining 3.6% as measured by the S&P 500, paced by the financial sector's 12.9% gain. Only one other sector, industrials, gained more than the market in the month. The chart below shows the performance of the sectors of the S&P 500 for the month and the year-to-date. Global markets also moved higher, gaining 5.2% as measured by the MSCI EAFE index. The U.S. equity markets have rallied close to 50% since early March without a significant increase in estimates for earnings, looking as far out as the end of next year. Meanwhile for bond investors yields moved slightly lower in August, aided by Chairman Bernanke's comments that the Fed would remain accommodative due to the fragile economy. Our assessment of conditions is that we see risks associated with the consensus that the economy is bottoming, as we discuss below.

<i>Market Statistics</i>		
<u>August 31, 2009</u>		
	Level	Year-to-Date %
Dow Jones	9,496	+8.2%
S&P 500	1,020	+13.0%
NASDAQ	2,009	+27.4%
MSCI EAFE	1,499	+21.1%
Oil (WTI)	\$69.96/bl	+56.9%
Barclays Agg Bond Index		+4.6%
Federal Funds Rate	0-0.25%	
6 Mos Treasury Bill	0.14%	
2 Year Treasury Note	0.96%	
5 Year Treasury Note	2.38%	
10 Year Treasury Note	3.40%	



Equity Market Performance Still Diverges from Fundamentals

The gain in U.S. stocks in August, and financial stocks in particular, reflects not just the continued rise in optimism that the worst is over for the economy generally and the consumer specifically, but also that companies will quickly return to peak margins and earnings. In our view, the fundamental data warrants caution in spite of the market's increase. As we've written in recent months, the stock market's gains have come without growth in current revenues by companies or a meaningful increase in growth estimates looking out to 2010. In the second quarter's earnings releases, only about a quarter of companies reported improvements in their revenue forecasts.

Moreover, sales reported by companies in the S&P 500 declined 16% from a year ago in the second quarter, which was a steeper drop from the first quarter's -14% reading. To beat earnings estimates companies have been cutting costs at a rate not seen in decades, eclipsing the pace of the recessions of 2002 and 1991, according to the Wall Street Journal. Simply stated, tangible evidence of revenue growth must emerge and even exceed expectations to attain the above average profit margins and earnings currently priced into the market as far out as year-end 2010.

Returning to August, the sharp rise in financial stocks was also contrary to the fundamental data, including the FDIC's recent report that 416 banks are now on the "problem list" for risk of insolvency compared to 305 in the first quarter. Since the start of the financial crisis, the FDIC has closed 81 banks. Some analysts forecast that many hundreds of bank closures are still to come, which portends a higher level of government assistance to protect depositors. Nationally many banks are maintaining tight lending standards on new loans and are seeking to build or retain capital, but the ratio of reserves for bad loans to assets is the lowest since 1991. The problems in the financial sector are clearly spreading beyond the challenges from loans associated with the bad housing market. We have been watching issues surfacing in commercial loans for several quarters and the most recent data indicate that defaults on such loans were twice as high in the second quarter of 2009 as the year before. Data on loans past

due, foreclosed real estate and balances past due on credit cards are showing increases as well. These trends speak to the weakness of cash strapped consumers, who are the key to a sustained recovery and to forecasted growth in revenues for many sectors of the market. Commercial real estate loans may become another major problem for banks in the months ahead. Our point in highlighting these fundamentals is that the market's future path could see a return of volatility with any disappointment from high expectations. The data highlights that challenges remain. The chart below shows the rapid increase of the stock market from its lows in March, compared with past cycles.

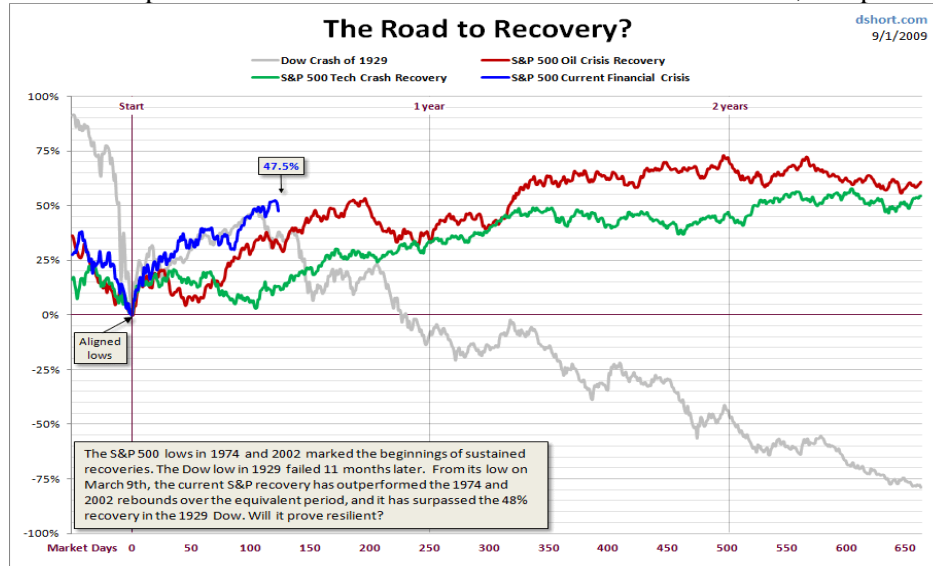


Chart Courtesy of dshort.com

Economic Data in August Dominated by “One-Time” Items

Continuing the pattern of recent months, reports in August generally reflected moderating but still weak economic conditions. The data were also distorted by a number of one time stimulus efforts. For example, consumer spending data for July measured an increase of 1.6% with all of the gain attributable to the “cash for clunkers” program with more of an effect to come in August. The one-time program is likely to account for a substantial portion of the gain forecasted for the third quarter’s GDP report due out in October. Meanwhile, housing data continue to reflect a recovery from the depths of the worst drop in home sales and home prices on record, with sales of new homes rising in five out of the last seven months. Steep price discounts have been necessary to bring new buyers into the market, along with the government’s first time home buyer credit of \$8,000. Estimates from the National Association of Realtors show that the cost to taxpayers of the home buyer credit has been as much as \$45,000 per extra home sold according to calculatedrisk.com. Lastly, durable goods orders were reported up 4.9%, but excluding the volatile aircraft and defense sectors orders declined 0.3%. In short, while data continues to show a moderating decline in the economy, or increases from historically low levels, the economy is not yet evidencing a resurgence of consumer or industrial activity required to produce a typical “V” shaped recovery after a recession.

Investment Strategy

We continue to maintain a cautious stance toward equity allocations and individual stocks based on our discipline and bottom up research. Headlines in August often overlooked the details of the underlying data reflecting weakness or headwinds for the economy or stocks. The rally since March has been predominantly in lower quality stocks and we strongly believe that a focus on high quality stocks with solid dividends and stable earnings, along with caution toward new purchases at current valuation levels, remains the right course for clients. Active management of existing holdings and portfolios is an additional necessity more than ever. As always, we look forward to our next opportunity to visit with you and we appreciate your support and referrals to our company.

Christopher H. Lyford

Christopher H. Lyford, CFA
 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.

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