ACADIA TRUST N.A.

Trustees and Investment Advisors

January 20, 2012

Dear Clients and Friends,

Happy New Year! And, what an interesting year it will be. We look forward to sharing our perspective with you each month as events unfold in the global economy. If you receive this letter second-hand and are not on our mailing list, please do not hesitate to contact us to be added.

In this letter we provide:

- Our outlook;
- Acadia Trust news – a staff promotion;
- An administrative note regarding tax notices.

Outlook

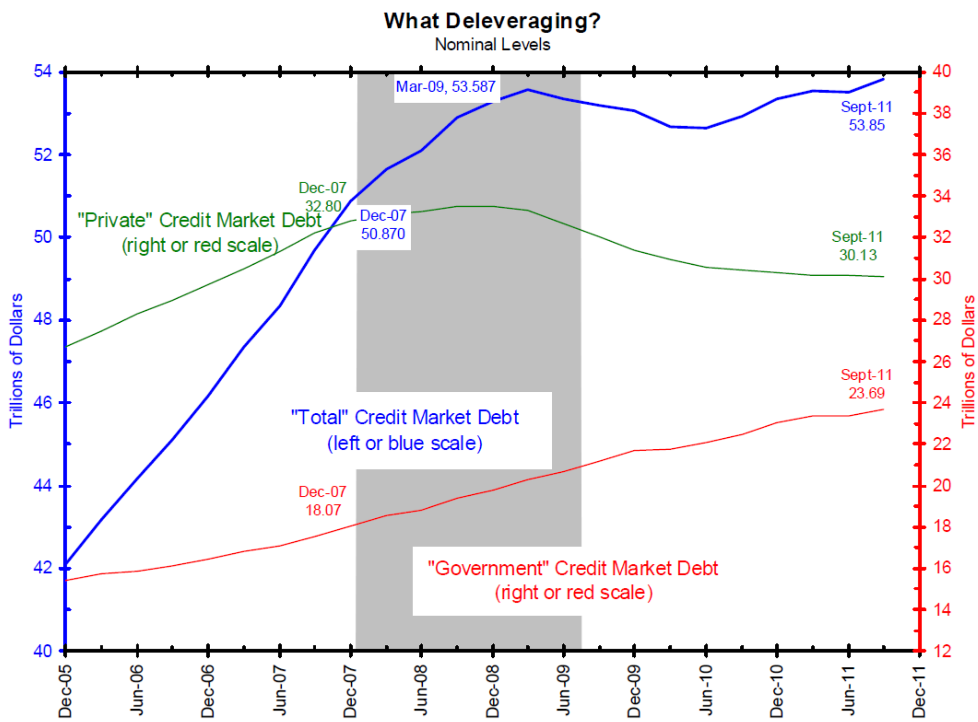
In our December letter, we expressed doubt that the latest plans from European governments would resolve their debt problem and avert a bank crisis. We said we expect recession in Europe, which might contribute to a U.S. recession. We reiterated our view that corporate earnings will likely be weaker in 2012 and that stocks are currently overvalued. We commented on increased stock market volatility caused by central bank intervention, and forecasted higher than average volatility will continue due to ongoing intervention.

Since our last letter, the S&P500 index skidded into the end of the year at virtually the same price as it started the year 1257; then the index went up 3% in the first two weeks of January based on optimism regarding U.S. economic indicators reported in the media. Many of these statistics were lagging indicators, not leading indicators, so we think the optimism is misplaced.

The news from Europe was mixed: new government bond sales for some countries have been relatively successful; yet, many countries' credit ratings were downgraded, including France and the European Rescue Fund itself. Economic data from Europe suggest that a recession may have started in the last quarter. We cannot predict the outcome, but U.S. stock market prices reflect the expectation of a successful resolution to the situation in Europe.

Debt has accumulated in economies around the world to unsustainable levels. 'Deleveraging', the process of reducing debt, will proceed for a very long time in the public and private sectors and is off to a very slow start.

Global Debt Outstanding
(in trillions of dollars)



Gray bar represents recession. Private credit market includes households and businesses.
(source: Bianco Research, LLC)

Debt is not a bad means of financing if used responsibly. However, if debt accumulates over the long run at a rate greater than the economic growth of the debt holder (whether that is a household, business, or government entity), it cannot be repaid. That is the situation now confronting Europe, and will soon confront other governments.

When creditors no longer have faith in the ability of debtors to repay, the debtor must change their financial plan: reduce their debt; borrow less; spend less; and, bring in more revenue, if they can. Governments will ultimately need to reduce spending and increase taxes, which will be a significant drag on their economies. If this process is precipitous, as it has been in Greece and other countries, it can create very significant disruption. In the U.S., this could decrease GDP by around 1% annually according to analysis by economists Rogoff and Reinhart (*Growth in the Time of Debt*, National Bureau of Economic Research Working Paper No. 15639 of January 2010). On a global scale, the process is likely to take a number of years, leading to slow growth for a protracted period.

Our research and our sources indicate a possibility of a U.S. recession this year. The bond market, in fact, seems to be priced with recessionary expectations, while the stock market is not.

Should recessionary fears return to the market, corporate earnings expectations would likely deteriorate, removing some support for stock prices, and leading to a market correction. We expect the Federal Reserve will make every effort to avoid a recession and is likely to engage in another round of 'quantitative easing'. This would bolster support for stocks and drive interest rates down further; however, sustainable economic growth is unlikely to ensue. We are more concerned about recession than most commentators and other investors.

With markets up despite underlying negative news, and with most companies at relatively high valuations, this is a good selling opportunity – but, what to buy?

We continuously monitor our clients' investments, comparing their current price to our price targets. When they reach the high end of the range of our estimate for their value, we will sell and seek to buy other investments at the low end of their range. In this environment, very few buying opportunities exist.

At Acadia Trust, we use a proprietary stock screening tool that monitors 600 to 700 U.S. public stocks to find and track prospective investments. We run the screen daily, identify the best opportunities, conduct research on them, and track them. That is how we know what to buy, even in difficult environments such as this, and why we refer to what we do as 'intelligent investing'.

Acadia Trust news

We are pleased to announce that Stefan Iris, CFA, has been promoted to Portfolio Manager. This promotion reflects Stefan's many contributions to the portfolio management team, his extensive experience in the investment field and his CFA designation. He received his MBA from the Sawyer School of Management at Suffolk University and a B.S. in Finance from Northeastern University. He has worked for Acadian Asset Management, Putnam Investments, John Hancock Funds and First Data Services, all in Boston.

Administrative note

You will receive your tax reporting forms for interest, dividends, and capital gains in the coming weeks. They will be mailed on or before the mailing deadline of February 15. If you are required to take a minimum distribution from your Individual Retirement Account, we will notify you of the amount this month.

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On a final note, we remind you that Acadia Trust, as trustee and investment advisor, serves clients who prefer active management of their investments, and who have a current or anticipated need for fiduciary services. We welcome your inquiries about our full range of capabilities and appreciate introductions to new clients. Please call any member of our team to learn more.

As always, we welcome your calls, letters, emails, and visits, and look forward to hearing your comments regarding this letter.

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