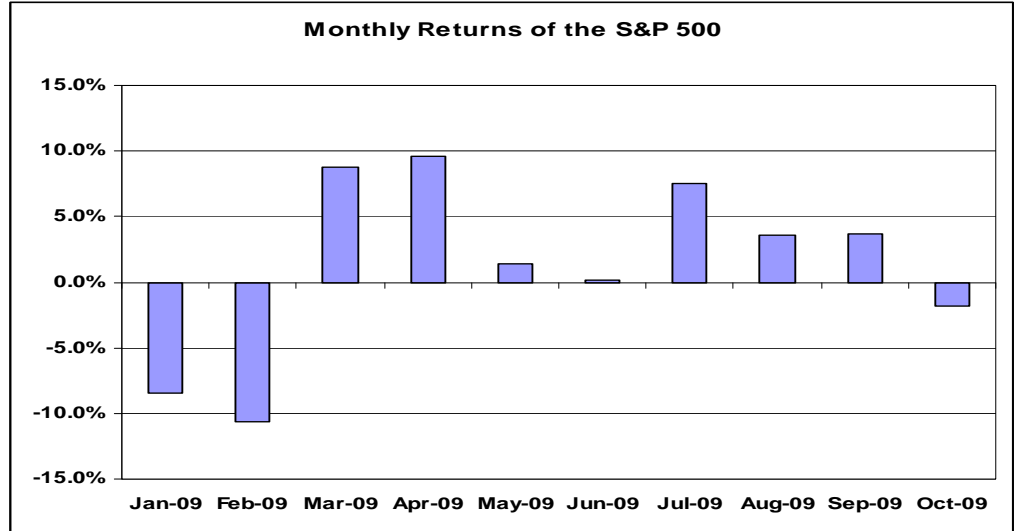


Market & Wealth Management Update October 31, 2009

U.S. and Global Stock Markets Cool Off in October

U.S. stock markets retreated slightly in October, declining 1.9% as measured by the S&P 500, after being up as much as 4% earlier in the month. The chart below shows the performance of the S&P 500 for each month of 2009, including the seven months of gains until October's decline. Global markets also fell, dropping 1.2% as measured by the MSCI EAFE index. Interest rates were mostly unchanged in the month, despite growing questions about how the Federal Reserve will begin raising interest rates, an action we doubt will be necessary for some time.

<i>Market Statistics</i>		
<u>October 31, 2009</u>		
	Level	Year-to Date %
Dow Jones	9,712	+10.7%
S&P 500	1,036	+14.7%
NASDAQ	2,045	+29.7%
MSCI EAFE	1,532	+23.9%
Oil (WTI) \$77.00/bl		+72.7%
Barclays Agg Bond Index		+6.2%
Federal Funds Rate	0-0.25%	
6 Mos Treasury Bill	0.16%	
2 Year Treasury Note	0.89%	
5 Year Treasury Note	2.31%	
10 Year Treasury Note	3.38%	



Source: S&P

The Economy & Earnings - Third Quarter Review

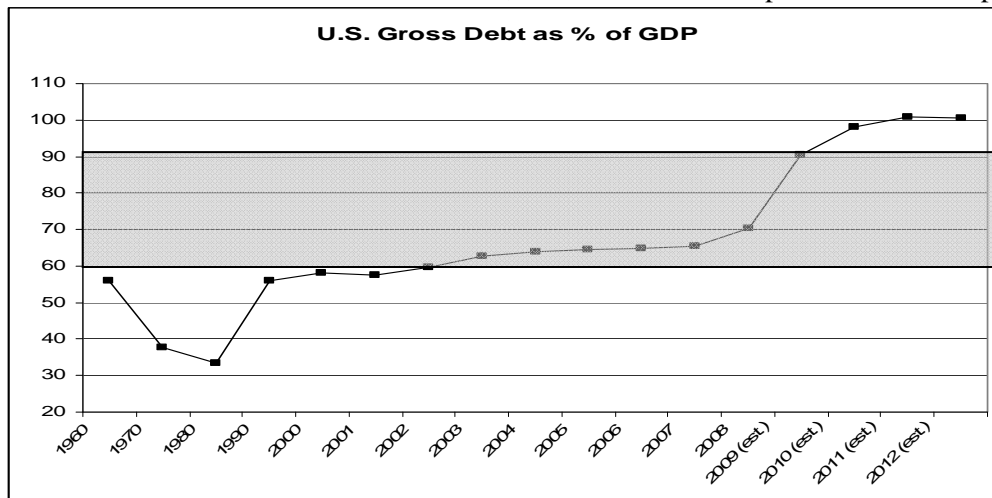
The U.S. economy returned to growth in the third quarter as real GDP rose 3.5% after four consecutive quarters of decline. The details of the report reflect the fragility of the recovery and raise questions of its sustainability. Over half of the economic growth was from the “cash-for-clunkers” stimulus and another major lift was related to the first time homebuyer’s credit. Without government spending the economy would likely be showing little growth. A report of consumer spending at the end of October showed a decline of 0.5%, an example of the reluctance of individuals to spend as they had in the past. Consumers’ income levels are flat, which is consistent with the weak employment situation, and a headwind to the hope that consumers and businesses can take the leading role in future economic growth. The rising trend in consumer saving this year, as well as recent reports of companies stockpiling cash too, are signs that frugality may continue through the end of this year if not into 2010.

Whether the government will need to step in again after the end of its stimulus programs of 2009 is a key question. At the end of October the Federal Reserve ended its program of buying U.S. treasuries, a plan designed as one of many initiatives to keep interest rates down for home buyers and others. Some believe that the end of such programs could cause mortgage interest rates to climb as much as one percent. A proposal in the U.S. Senate at the end of October would extend the homebuyer credit to April 30, 2010 and would also introduce a new \$6,500 credit for those who already owned a home. We expect further extensions of other stimulus programs will occur.

October also saw reports of third quarter corporate earnings. While many companies beat low expectations, a key focus for us in reviewing the earnings reports continued to be whether or not companies were seeing revenue growth. Cost cutting over the past five quarters has been massive and has enabled many companies to beat their earnings (net income) estimates. Data for the third quarter earnings continued the trend of cost cutting and lacked revenue growth. With more than 50% of companies in the S&P 500 reporting so far in October, 74% have beaten their projections but earnings estimates before the reporting season had been greatly reduced, which helped raise the rate of companies exceeding expectations. It’s important to keep the current data in context as earnings for the quarter are likely to be almost 18% lower than one year ago and forecasts of revenue growth in 2010 are subdued.

U.S. Government and Consumer Debt – Implications of the Current Trends

A few aspects of the current economic environment beginning to get more attention have been the explosion of government deficit spending, the overall levels of debt for consumers and credit markets in the U.S., and the potential long-term effects of both. As the chart below shows, the expansion of government debt financing above prior historical levels started in earnest in 2007, before the recession was fully underway. However, if one includes private sector debt as well as government debt, the ratio grows to closer to 400% of U.S. GDP. The prior peak of this more inclusive ratio was in the 1930s, at over 250% of GDP, a level that was surpassed in the earlier part of this decade. Since that time, because of high government deficits, the excessive use of mortgage and credit card debt by consumers and the low level of interest rates, the ratio has now surpassed the 1930's peak by 50%.



<http://www.whitehouse.gov/omb/budget/fy2010/assets/hist.pdf>

Recent pressure on the U.S. dollar is one effect from the higher deficit spending, partly related to the concern that the level of debt in this country is too high, and that lenders, including China and Japan, may seek to diversify holdings and cause U.S. interest rates to increase. Another issue is the imperfect nature deficit spending for economic stimulus. One can look to the experience Japan has had since the 1990's in trying to use deficit spending to prop up their economy, particularly when one problem in common with the U.S. was the threat of falling asset values (e.g. home and commercial real estate values). Moreover, an additional near-term concern in the U.S. toward borrowing is that attempts by consumers to lower their own debt levels could lead to sub-par growth, given that consumer spending (partly dependent on credit) accounts for 72% of GDP, up from a more typical average in the mid 60% range. The likelihood of continued consumer restraint in the U.S. suggests that the government may need to retain its high level of deficit spending for stimulus and for its many programs, forming a bit of the vicious circle that Japan saw in the past two decades, without any genuine economic growth to show for it. Our point is that high levels of deficit spending and debt levels can be problematic, and that near-term pain of deleveraging may be preferable to the inexorable growth of deficits, such as that seen in programs like the "cash-for-clunkers."

Investment Strategy

Recent volatility in the market at the end of October reflected concern that consumers and companies may not yet have reached firm footing. We have been expecting the data would show that headwinds will persist for some time and the exuberance of the market up to this point may be premature, or at least too fast, particularly given the speed of the market's rebound relative to corporate earnings. Revenue growth to this point has been lacking and more cost-cutting necessary for firms to make their earnings estimates. We expect this challenging environment to continue and are maintaining our defensive stance in portfolios relative to the stocks we own or purchase.

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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.

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