



FINANCIAL VIEWS AND COMMENTARY FOR CLIENTS OF PENNSYLVANIA TRUST

ARE WE THERE YET?

by Nils L. Berglund



Nils L. Berglund
Senior Vice President
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“Are we there yet?” Few groups have ever hit the road without eventually hearing this phrase – a thinly veiled plea to get the journey over with and let the fun begin. Similarly, this summer’s market travails had many investors asking if and when the discomfort would come to an end and a new leg of this bull market begin.

The discomfort investors have been feeling has come primarily from two sources: the day-to-day volatility in the stock market and the dramatic moves made by market-determined interest rates. Most noteworthy has been the volatility of interest rates. Both the 90-day T-bill and the bellwether 10-year Treasury note have traded wildly. The bill’s rate had been as high as 4.99% before concerns about the subprime lending markets hit a fever pitch, sending the rate plummeting to 3.22% on August 21 in an incredible flight to safety. The T-bill rate subsequently recovered, settling in around 4.1% just before the Federal Reserve cut the federal funds rate (for loans between banks) by 0.5% on September 18. Meanwhile, the 10-year note, which reached a

peak of 5.25% in early June, slid to 4.34% by early September. At mid-month it traded near 4.5%.

Even with all the commotion in the fixed income markets, the stock market performed quite admirably in the quarter, with a modest gain following the Fed’s September rate cut. Despite a growing consensus that economic growth is slowing as a result of the downturn in housing and some concerns that profit growth may become a less reliable source of market strength in the quarters ahead, many of the biggest and best companies recently traded at new 12-month highs – evidence of confidence in America’s core corporate engines. There has been no exodus from the U.S. stock market, signaling underlying confidence in the ability of the economy to regain momentum.

The market’s positive reaction notwithstanding, the Fed’s rate cut may not be the most important factor to economic growth, continued corporate profit expansion or a rising stock market over the balance of 2007. All three may be more strongly influenced by the Fed’s effort to prop up financial markets over the last two weeks of August by adding over \$110 billion to the money supply – priming the pump, as it were. Over the last year, U.S. money growth has been running in excess of 12%. Nonetheless, to bolster confidence that the Fed was on the job, the central bankers lowered the bank discount rate, the rate at which banks borrow from the Fed, by 0.5% on August 17.

Recently, Fed Chairman Ben Bernanke stated that “...it is not the responsibility of the Federal Reserve – nor would it be appropriate – to protect lenders and investors from the consequences of their financial decisions.” It would appear from statements like this that, despite the 0.5% cut in September, Bernanke may not be one for cutting rates rapidly. In fact, he has long been recognized as an economist who considers money supply equally if not more important than interest rates to managing the economy.

(continued on page 4)

**PENNSYLVANIA TRUST
WELCOMES NEW BOARD MEMBER**



Richardson T. Merriman, President and Chief Executive Officer of Pennsylvania Trust, is pleased to announce that Timothy C. Scheve has joined Pennsylvania Trust’s Board of Directors.



Timothy C. Scheve serves as President and Chief Executive Officer of Janney Montgomery Scott LLC and has over 20 years of experience and leadership in the securities industry. Mr. Scheve joined Janney in July 2007 from Legg Mason where he served in a number of prominent roles including Chief Administrative Officer and President and CEO of Legg Mason Wood Walker, the brokerage firm of Legg Mason, Inc.

Mr. Scheve earned a bachelors degree in economics, summa cum laude, from Catholic University and a masters in arts from Brown University. He is also a graduate of the Wharton School’s Securities Industry Institute of the University of Pennsylvania.



MESSAGE *from the* PRESIDENT

It's not uncommon for the investment industry to draw parallels between trees and investing, analogies that usually center on the idea of starting small and growing large over time. Recently, a friend related a story that made me think there is another similarity between trees and investment accounts.

Her 30-year-old crabapple tree, which provides the shade for a garden and patio in front of her home, was ailing. Construction next door had disturbed the extensive root system, and the limbs on that side of the tree had died. In August, she pointed out the problem to her Homeowners' Association Board, asking that the limbs be removed. The board delegated the task to its handyman, who promptly cut down the moribund limbs – in August.

Now, her entire tree is dying because, like all fruit trees, it should not have been trimmed until the dormant period this winter. A new one can be planted, of course, but by the time it grows to size, once again shading her garden and patio, it may well be too late; she's fairly certain that, by then, she'll be ready to trade her two-story home for something less challenging to aging knees.

Which brings me to the analogy: Like trees, investment accounts cannot always recover in time when damage is done, but the damage may be avoidable with the right help. An arborist would have advised the board to wait until winter. Fundamentally, the tree was sound. The advice of an expert and some patience would have kept it that way. Likewise, in times of market turmoil, such as the third-quarter volatility Nils Berglund discusses on page 1, investors can benefit from the insights and perspectives of a professional. This expert would have pointed out that the market's problems were specific to one area and, in reality, presented a bigger issue for leveraged hedge funds and major investment banks than for individual investors. More importantly, corporate profits, earnings, and the overall economy remained healthy. Precipitous actions by an investor such as withdrawing from the market in the midst of the downturn could well have done more harm than good.

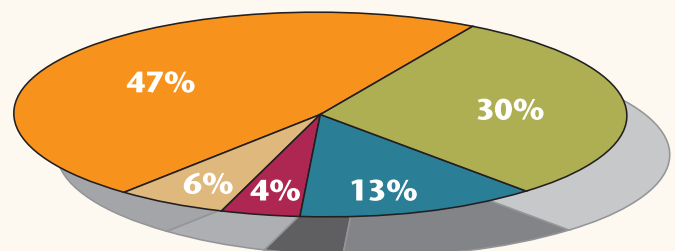
Another area of wealth management where securing the help of professionals can be a wise choice is your estate plan. As Bill Widing points out on page 3, involving a Corporate Fiduciary as executor of your estate or as a co-trustee of a testamentary trust will go a long way toward protecting and furthering your legacy goals. It will also ease the burden for individual co-executors or co-trustees, so they'll have more time for other pursuits, such as enjoying the extraordinary beauty of the Pennsylvania fall – the magnificent trees.

With many thanks for your continued support of Pennsylvania Trust,

Richardson T. Merriman

President and Chief Executive Officer

-  Large Cap
-  Mid Cap
-  Small Cap
-  International
-  Fixed Income



Balanced Asset Allocation

TRUST TALK

IS THERE A CORPORATE FIDUCIARY IN YOUR ESTATE PLAN?

by Bill Widing



J. William Widing, III, Esq.
Senior Vice President
Trust Administration

There are many roles a corporate fiduciary can play in an estate plan. As an executor, a corporate fiduciary can assure the terms of your will are carried out, support individual co-executors, and professionally manage important assets. As a trustee, a corporate fiduciary can provide stable investment counsel, protect beneficiaries, and deflect threats from creditors and outsiders.

When deciding whether to involve a corporate trustee in your estate plan, there are a number of considerations.

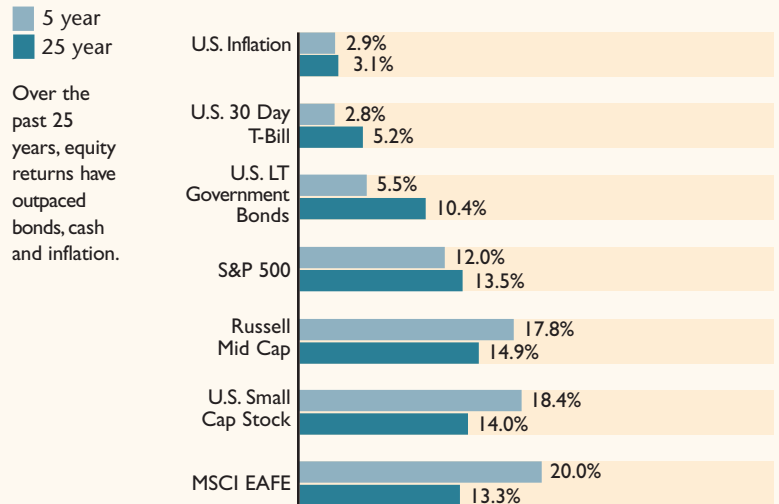
- Pricing.** Corporate trustee fees pay for a bundle of services essential to any properly managed trust: asset management, trust accounting, tax planning and compliance, distribution oversight and reporting, and family knowledge. The cost of replacing these services (let alone duplicating them qualitatively) is apparent. Just paying for à la carte asset management through a no-frills mutual fund provider will, depending upon the internal expense ratios of the funds selected, run anywhere from 0.5% to 1.0% annually, if not more. These fees typically do not include the other necessary services described above.
- Fiduciary services and investment management at one location.** Account relationships should include an investment officer and an administrative officer. This team can provide wealth management services in a coordinated way. It is the responsibility of the team of professionals to assure your family's needs will be taken care of as they arise, no matter what.
- Fiduciaries change. Your family can, too.** A long-standing concern related to naming a corporate trustee in an estate plan can be summed up, "once in, never out." When a governing instrument appoints a corporate trustee without including a power to remove and replace, the appointment could turn into a sinecure. Account officers could be moved in and out of the account at will. Fees could be unilaterally increased without increased services. Calls and emails may not be answered promptly. Because a relationship can sour, we routinely advise all clients naming a corporate trustee in their estate plan to incorporate a power of removal and replacement. While the nuances of bestowing that power on beneficiaries need discussion, the existence of this power is a meaningful way for a trust creator to level the playing field between the corporate trustee and the beneficiaries.
- The focus should be on your plan, not your money.** While a corporate fiduciary takes the responsibility of asset management very seriously, this management needs to support your family plan, and not the other way around. Your team of professionals must work together to assure that your legacy guides the work for your family.

When the time comes to consider putting your fiduciary team together, we hope you will consider Pennsylvania Trust as a flexible, professional and cost-effective team member.

MARKET INDICATORS

	Current	Three Months Ago	One Year Ago
Stock Indices	9/30/07	6/30/07	9/30/06
Dow Jones Industrial Average	13,896	13,409	11,679
Standard & Poor's	1,527	1,503	1,336
U.S. Treasury Yields			
2 Year	4.0%	4.9%	4.7%
5 Year	4.2%	4.9%	4.6%
10 Year	4.6%	5.0%	4.6%
30 Year	4.8%	5.1%	4.8%

ANNUALIZED RETURNS OF SELECT ASSET CLASSES



Source: Ibbotson Associates

CORE LARGE CAP DIVERSIFICATION

In order to maintain a well diversified large cap common stock portfolio, we recommend the following relative sector weightings within the Standard & Poor's 500:

S&P 500 Sector Weightings	Weighting	Pennsylvania Trust
Consumer Discretionary	9.2%	—
Consumer Staples	9.5%	—
Energy	11.7%	=
Financials	19.8%	—
Health Care	11.6%	=
Industrials	11.5%	+
Information Technology	16.2%	+
Materials	3.3%	+
Telecommunication Services	3.8%	=
Utilities	3.4%	=

Note: Sector weightings represent S&P 500 levels. Pennsylvania Trust's relative weightings are noted with a + (overweighted), - (underweighted), or = (equal weighted).

(continued from page 1)

So what do we foresee as the consequences of the Fed's actions on the economy and the markets? It is likely that over the balance of the year, the federal funds rate will be lowered, perhaps to 4.25%. It is also likely that the U.S. dollar will continue to decline. This will make the U.S. more competitive in world markets, especially in the manufacturing sector, where the U.S. will become a lower cost but still high-quality producer. Lower U.S. rates will permit other nations to lower theirs, helping to foster growth in those countries as well. It may be painful for some, but we believe that, within a reasonably short period of time, the current housing and credit risk concerns will run their course and the markets will resume their climb, supported by rising corporate profits in a lower interest rate environment.

We continue to recommend that growth-oriented balanced portfolios invest 70% in common stocks and 30% in fixed income and cash equivalent investments. Our equity allocation – 67% large-cap stocks, 20% international stocks, 8% midcap stocks and 5% small-cap stocks – reflects a conviction that large-cap, high-quality domestic and international companies should be favored in this economic environment.

“Are we there yet?” Not quite, but it's probably time to wake up, sit up, and take notice of the surroundings. The opportunity to have some fun appears to be just around the corner.

PAINTING PROFILE



Pennsylvania Trust is proud to feature the work of artists such as Scott Cameron (b. 1946), a graduate of Southampton College and the Pratt Institute in New York. Cameron paints the simple elegance of the America's Cup races, serene coastal marsh scenes (“Heron's Light” is shown above), timeless landscape vistas, and historic steamboats in the style reminiscent of the era in which they reigned. He currently lives in Delaware.

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Pennsylvania Trust is committed to conduct all our relationships with integrity and to maintain the highest ethical standards; provide outstanding professional and personalized services; produce superior investment results consistent with client objectives; and retain exceptionally skilled individuals, empowering them with state-of-the-art technology.