



FINANCIAL VIEWS AND COMMENTARY FOR CLIENTS OF THE PENNSYLVANIA TRUST COMPANY

STIRRED, NOT SHAKEN

by Nils L. Berglund



Nils L. Berglund
 Senior Vice President
 Portfolio Management

A few months ago we discussed the relative calm of the investment markets over the previous three years, noting the lack of a calendar quarter with a double-digit percentage gain or loss in the Standard & Poor's 500. To many, this period of calm appeared to come to a halt on February 27 when the Dow Jones Industrial Average (DJIA) closed 400 points lower for the day. Within a week, the DJIA closed nearly 740 points below its all-time closing high set on February 20. Investors were clearly stirred from the complacency fostered by the rally since September 2006. But, as of yet, the market's resolve has not been sufficiently shaken by events to produce a double-digit quarterly decline.

Many of the market's concerns remain the same, including the budget and trade deficits; Iraq, Iran and terrorism; a weak dollar; stubbornly high energy prices, and a weakening housing market. But when the stock market fell, new culprits were sought, since these earlier worries were already in play when the market was rising. Some of the blame was affixed to the Chinese government's supposed plans to change taxes and trading regulations. Other triggers were a report of weak US durable goods orders and suggestion of a

possible recession by the former chairman of the Federal Reserve. In addition, two other concepts were introduced to our everyday investment/economic lexicon: subprime lenders and carry trade.

Subprime lending occurs when a firm provides financing to those of questionable creditworthiness. When it was announced that major mortgage lenders (e.g., Freddie Mac) were tightening their standards, concern mounted that any recovery in residential housing would be pushed farther into the future. Another concern: that many current borrowers would default on loans, with a resultant cascading impact on the economy. Housing prices in many parts of the country were perceived to be at risk, reversing some of the "wealth effect" that rising home prices have had on the economy in recent years.

When the Bank of Japan raised short-term interest rates from 0.25% to 0.50%, it made headlines. But most never anticipated how far-reaching the impact would be. The increase, coupled with a stronger Yen, heightened concern regarding the carry trade supporting speculative investing around the globe. Speculators had been borrowing cheaply in Japan and investing for higher returns elsewhere. As long as the borrowing rate remained low and the Yen remained weak, risks were manageable. That changed, some of these strategies unwound, and the effects reverberated throughout the world's markets.

Investors were abruptly reminded that there is risk in investing, especially in the short-run, and that complacency often leads to losses. Asset values across the board underwent realignment. And so, in many ways, the clock has been reset. Hopefully, investors will now look at the investment landscape without rose-colored spectacles. It is worthwhile to remember, however, that when markets take a sharp, hard hit like the one experienced around the world in late February and early March, it generally takes some time to regain

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PENNSYLVANIA TRUST VOLUNTEERS

At Pennsylvania Trust, we place a high value on community. So we were very pleased when The Other Carpenter, a nonprofit organization, offered us an opportunity to help homeowners in West Philadelphia's East Parkside neighborhood with maintenance and improvement of their homes. On Saturday, January 20, a large group of Pennsylvania Trust employees helped to combine two rooms into a studio apartment for the homeowner's arthritic mother. As we demolished walls, framed a new closet, installed drywall and windows, and reinforced ceilings, we were reminded once again that "enrichment" comes in many forms, including new friends.

Our thanks to The Other Carpenter for helping us create Pennsylvania Trust's 2007 Community Service Day. We look forward to finding more hands-on ways to help our local communities in the years to come.





MESSAGE *from the* PRESIDENT

T.S. Eliot once opined that April is the cruellest month. This year, that dubious honor may rightfully belong to February. As Nils Berglund reviews in his column on page 1, the final days of February and first days of March brought a steep drop in stock market prices, followed by considerable day-to-day volatility. By March month-end, however, the market was back in positive territory, already responding to continued positive news and reasonable stock valuations. As I see it, the experience of the past months only reinforces the importance of keeping a balanced perspective on risk and volatility. Ever present, we can never be complacent.

A long-term perspective is critical in many areas of wealth accumulation, management and protection. For example, on page 3 Irwin Love, Chief Fiduciary Officer, describes the many roles that life insurance plays in estate planning strategies.

On another front, our mission statement speaks to our commitment to attract and retain the highest caliber professionals to serve our clients. Our most recent addition, J. William Widing, III, Esq., underscores that sentiment. Bill Widing, Senior Vice President, joined Pennsylvania Trust in March as trust administrator, estate and financial planner. A member of the Florida and Pennsylvania Bars and a veteran of 25 years with all categories of trusts and in estate planning with major regional and national firms, Bill most recently was a shareholder in the Trusts and Estates Group of Stevens & Lee, P.C.

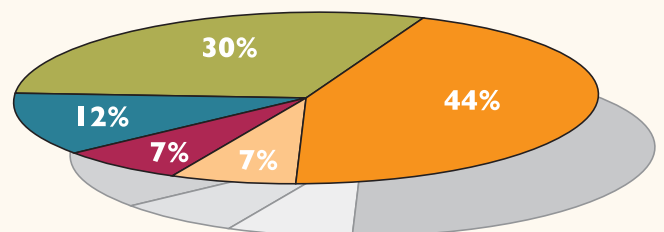
In addition to this broad experience, Bill has specialized knowledge in Special Needs Trusts and Guardianships and possesses a compassionate understanding of the human needs of our clients. As an active past and present board member/chair of nonprofits and foundations in our region, Bill also understands the world of charitable giving from the organizational and operational side, a perspective that helps him advise clients in the creation of effective and meaningful charitable funding vehicles.

We are thrilled that Bill has joined the Pennsylvania Trust family and hope you will meet him soon. We look ahead to the continued thoughtful broadening of our capabilities to better serve our clients.

Richardson T. Merriman

President and Chief Executive Officer

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



Balanced Asset Allocation

TRUST TALK

LIFE INSURANCE

by Irwin Love



Irwin S. Love, Esq.
Senior Vice President and
Chief Fiduciary Officer

Among the most common reasons for purchasing life insurance are liquidity, wealth building, saving/investing, income-tax deferral and, for families with minor children, income replacement (to provide maintenance and support should a working spouse die).

Until very recently, individuals often counted on the death benefit from life insurance to pay death taxes, including the federal estate tax. However, over the past several years, two factors have impacted attitudes about buying life insurance for this purpose.

First, the estate-tax exemption has gradually increased. Currently, the exemption shields estates up to \$2 million from the federal estate tax. By 2009, the exemption will shield estates as large as \$3.5 million. In 2010 (and for that one year only), the federal estate tax will be repealed completely. As a result, a substantial number of wealthy individuals feel they will not be required to pay federal estate tax and are using other estate-planning techniques. Second, there was hope that a Republican-controlled Congress during the Bush administration would repeal the federal estate tax altogether.

Due to other, more-pressing issues, the legislators did not achieve that goal. Now, the Democratic-controlled Congress has less tolerance for the estate-tax concerns of the wealthy and is certainly aware that repealing the estate tax could impact the federal budget. We suspect Congress will be looking for other solutions. Rumors suggest legislation that would exempt estates below a certain level (likely \$2 million to \$5 million) and impose a tax rate of 15%-35%.

One thing is for certain: The present law governing estate taxes will “sunset” in 2010. Unless Congress takes action before then, the prior law will again be in effect, potentially subjecting any estate above \$1 million to the federal estate tax. That fact, as well as the very real possibility that Congress will not repeal the tax, has estate planners once again thinking about liquidity for death taxes through life insurance.

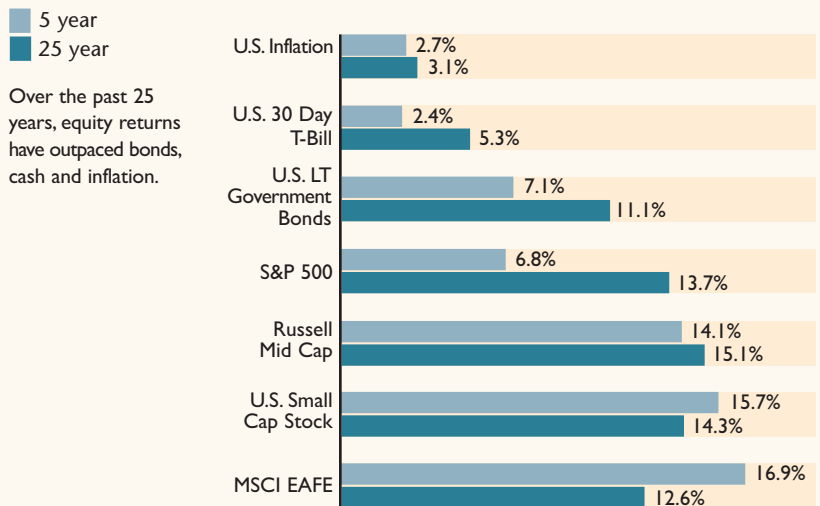
A final thought: While life insurance proceeds are almost always income tax-free, they generally are not free of federal estate tax if the insured owned the policy. Planners often recommend an irrevocable life insurance trust (ILIT) to “purchase” life insurance, pay premiums and collect the proceeds. The proceeds in the ILIT are exempt from federal estate tax and therefore should not be used for the direct payment of tax; however, the trustee can buy illiquid assets from the estate, providing liquidity for payment of the tax. If other funds are available to pay the tax, the ILIT can be used as an investment vehicle for the benefit of heirs.

The Pennsylvania Trust Company serves as trustee for many ILITs. Call your account administrator to discuss your estate plan and if you are a candidate for life insurance to be purchased through an ILIT.

MARKET INDICATORS

	Current	Three Months Ago	One Year Ago
Stock Indices	3/31/07	12/31/06	3/31/06
Dow Jones Industrial Average	12,354	12,463	11,109
Standard & Poor's	1,421	1,418	1,295
U.S. Treasury Yields			
2 Year	4.6%	4.8%	4.8%
5 Year	4.5%	4.7%	4.8%
10 Year	4.6%	4.7%	4.8%
30 Year	4.8%	4.8%	4.9%

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	Pennsylvania Trust	
Consumer Discretionary	10.5%	+
Consumer Staples	9.6%	-
Energy	10.1%	-
Financials	21.6%	=
Health Care	11.9%	-
Industrials	10.9%	=
Information Technology	14.9%	+
Materials	3.1%	+
Telecommunication Services	3.7%	=
Utilities	3.7%	=

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

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upward momentum. Investors are more skeptical and risk-averse, and some will use any rally to cut their exposure to risk. Once this pressure is removed, the markets can more easily rise.

Economic growth is slowing, but slower growth is not a recession. The Fed steadfastly believes that the US economy will continue to expand at a moderate pace into 2008. We see various signs supporting this belief. One is that markets and individual stocks appear to have found support at key levels in the weeks following the initial decline. This suggests that, absent another exogenous catalyst, the investment markets believe the economy to be essentially sound. Stocks should gradually resume trading on economic and corporate fundamentals. Another sign is what appears to be a bottom in the price of a key commodity — copper — and continued strength in other industrial commodities. The potential bottom in copper prices caught the eye of Michael Kahn who, writing in a March 19 online column for Barron's, noted that over the years, "...copper earned the nickname 'the metal with the PhD in economics' for its ability to forecast economic conditions." Stronger copper prices equal a stronger economy.

In the short-run, we are a bit cautious as we await assurances that the markets have stabilized. Longer-term, our view of the market remains upbeat. Stocks continue to be meaningfully undervalued relative to bonds and other asset classes. Barring an unforeseen rise in interest rates or a dramatic slowdown in corporate profit growth, we expect stocks to perform well over the balance of 2007 and into 2008. Our asset allocation reflects that relative enthusiasm. For a balanced long-term growth portfolio, we recommend 70% stocks and 30% bonds and cash. Our equity allocation remains 17% international stocks, 10% each small- and mid-cap equities, and 63% large-cap stocks

PAINTING PROFILE



The Pennsylvania Trust Company is proud to highlight the work of artists such as David Hopkins (1951-2002). He received his BFA from Penn State University and has exhibited extensively in Pennsylvania, New York and Maryland. Shown above is "Hilltop Farm on Devoe Road" painted in 1999.

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The Pennsylvania Trust Company 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.