



FINANCIAL VIEWS AND COMMENTARY FOR CLIENTS OF PENNSYLVANIA TRUST

IS IT TIME TO TAKE SOME CHIPS OFF THE TABLE?

by Nils L. Berglund



Nils L. Berglund
Senior Vice President
Portfolio Management

It would not be surprising if stock investors felt a bit complacent at this moment. In only three of the last 17 quarters has the Standard & Poor's 500 Index generated a negative return, the largest being only 2.1%. The near doubling of the index in slightly more than four years, with the recovery carrying the index back to its 2000 high, has been one of very little pain and substantial gain.

For some, however, the strength and length of the market's recovery to old highs brings out the cautious side of their natures. Now that they have been "made whole," recouping what was lost earlier in the decade, they may be asking, "Should investors be as worried today about the level of the market as they should have been seven or eight years ago?" In other words, is it time to take some chips off the table? Our answer is: No, at least not yet.

For several years we have claimed that domestic stock valuations were too reasonable to place investors at any significant risk of a sustained decline. We were

right in this regard, as evidenced by the market's persistently strong performance over the past four years. Our stance was underpinned by three key factors. First, throughout the period, corporate earnings, especially earnings expectations for the following year, were rising. Second, interest rates as measured by the 10-year Treasury rate were fairly well contained, hovering between 4.0% and 5.3%. Finally, the stock market's rise was measured, with sector rotation working off near-term excesses while the overall market continued a steady climb.

We follow changes in the relationship of these factors using a model that compares the 10-year Treasury yield to the S&P 500 forward earnings yield. With the recent rise in 10-year Treasury yields to around 5.2%, a modest slowing of forward earnings forecasts, and a rise of approximately 20% in the S&P 500 over the past twelve months, the market's valuation cushion has narrowed.

It is possible that the 10-year Treasury yield could rise a bit more this year due to increased inflationary pressures in the U.S. economy. Given that, it is important that corporate earnings continue to advance. Presently, there is some concern that the U.S. economy and corporate earnings growth could be hampered by the housing industry's collapse. Those concerns are not unfounded, but the impact has been relatively muted thus far. Moreover, for many corporations, the impact may be offset by the globalization of their markets and their ability to participate in surging economic growth abroad.

Treasury Secretary Henry Paulson recently told Congress, "...the global economy is now firing on all engines in a way that produces better balance, more sustained growth and expanding opportunities." Global gross domestic product expanded by 5.4% in 2006, its best performance in more than 30 years. Secretary

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SPEAKER ANNOUNCEMENT

We are pleased to announce that the guest speaker at our fourth annual Investor Seminar will be the Honorable William S. Cohen, former U.S. Secretary of Defense and three-term United States Senator. Through Secretary Cohen's 30 years of service in the legislative and executive branches of the U.S. government, he has become recognized as an expert on defense and international issues. His insights on the perils and promise of the new world will be of great interest to investors.





MESSAGE from the PRESIDENT

For business organizations, the summer months historically present an opportunity to work on deferred projects and provide time for rest and reflection. Here at Pennsylvania Trust, our summer has been anything but slow-paced.

In June, along with Willis Private Client Services, we presented a symposium on a specific wealth-management topic: *Art and Tangible Personal Property: The Silent Assets*. This panel discussion on art valuation and ownership issues included an art succession and philanthropy practice consultant, an estate planning attorney with expertise on the topic, a specialist in fine arts insurance and a specialist in art title insurance. The discussion ranged from how to value these “silent assets” for insurance and estate-planning purposes, options for their disposition as well as the importance of ensuring the provenance of various collectibles. We are looking at other seminar topics to explore as well as gearing up for our annual Investor Seminar in October.

As for investments, we are keeping abreast with what is literally a world of new and evolving opportunities (see Nils Berglund’s commentary on page 1). With the integrated global economy, the forces shaping U.S. market behavior may easily originate in Beijing, Munich or Mumbai. In a world of global manufacturing and markets, the earnings prospects and, thus, stock prices of many U.S. companies, increasingly depend not only on the consumerism of Americans but also on the spending patterns of Argentinians, Angolans and Australians. Additionally, due to globalization and structural changes to political and economic policies in Europe and Asia, those regions, historically pulled along by U.S. economic activity, are becoming powerful drivers of global GDP growth.

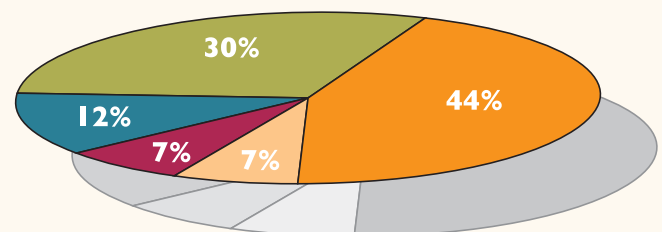
The impact of foreign consumption on domestic companies’ profits and the importance of foreign securities to a well-balanced portfolio are likely to increase in the coming years. If you haven’t discussed initiating or augmenting a foreign-stock allocation in your portfolio with your portfolio manager and would like to do so, please give us a call.

A few years ago, foreign stocks were not a part of our model asset allocations. Today, it would be imprudent to ignore the significance and opportunities inherent in the rapid development beyond U.S. borders. This change underscores the importance of continued assessment of your investment management program. A strategic investment plan is only as good as our ability to keep it current with a changing environment and the changing needs of clients. The same can be said of all aspects of financial planning, including estate planning. On page 3, Bill Widing discusses why following through on your estate planning by sharing it with beneficiaries may improve its overall effectiveness.

However you spend it, I hope your summer will be as productive as ours at Pennsylvania Trust.

Richardson T. Merriman
President and Chief Executive Officer

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



Balanced Asset Allocation

TRUST TALK

WHEN TO SHARE AN ESTATE PLAN

by Bill Widing



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

Clients regularly wrestle with the question of whether to share their estate plan with their beneficiaries, and if so, what to say and when to say it. There are no pat answers. The right approach depends upon each family's unique dynamics and the goal of disclosure. Why disclose?

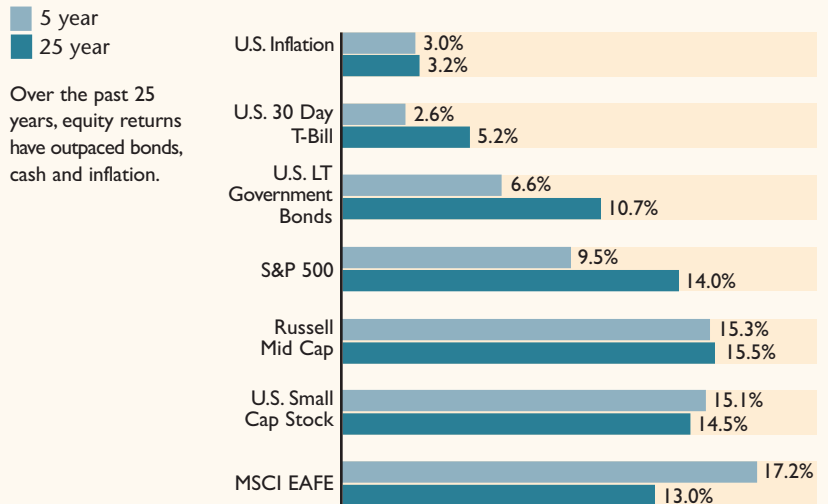
1. Avoid confusion. Dispositions at death can be complicated. Giving your family an overview, perhaps with a flow chart, can help them navigate the legal verbiage of today's estate planning documents. Such an overview could also tell your family what you want to happen if you are in a terminal condition and who is to be in charge if you become incapacitated.
2. Explain yourself. If the plan includes something that might be problematic, consider taking the time for a face-to-face explanation, whether one-on-one or in a group meeting. A LIMITED question and answer session may help address misperceptions or lessen hurt feelings.
3. Introduce your estate planning professionals. If you have assembled a reliable team of professionals you believe will continue to serve your family well, take the time to introduce them. If you want to avoid having your team replaced, lay the groundwork by setting up meetings to build relationships now.
4. Control expectations. Potential beneficiaries frequently speculate about their inheritance. Sharing even general information may dispel mistaken expectations about how much might be inherited or in what fashion. If your plan uses trusts, consider explaining why. Trusts generally are a benefit, not a penalty, to a beneficiary.
5. Lead by example. Few people relish the process of estate planning. But your example may induce family members to follow.
6. Create peace of mind. Unless you tell them, family members may have no idea that you have actually done anything.

We stand ready to help families address these and other issues. Please speak with your administrative officer at Pennsylvania Trust if you would like to discuss these points further.

MARKET INDICATORS

	Current	Three Months Ago	One Year Ago
Stock Indices	6/30/07	3/31/07	6/30/06
Dow Jones Industrial Average	13,409	12,354	11,150
Standard & Poor's	1,503	1,421	1,270
U.S. Treasury Yields			
2 Year	4.9%	4.6%	5.2%
5 Year	4.9%	4.5%	5.1%
10 Year	5.0%	4.6%	5.1%
30 Year	5.1%	4.8%	5.2%

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	10.2%	=
Consumer Staples	9.3%	-
Energy	10.8%	=
Financials	20.8%	=
Health Care	11.7%	-
Industrials	11.4%	=
Information Technology	15.5%	+
Materials	3.1%	+
Telecommunication Services	3.8%	=
Utilities	3.5%	=

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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Paulson indicated that global growth this year and next is expected to be strong as well. This bodes well for continued corporate profit growth, and for helping the U.S. economy pull through any housing-related difficulties.

The key to success in U.S. equity markets will be to invest in companies that generate strong earnings growth by leveraging global trends. In the near term, energy, materials and industrial companies are in strong positions, since they sell products needed to sustain this worldwide economic growth. Information technology will also participate in this global expansion.

In light of these trends, we believe it has become increasingly important to consider adding international components to portfolios in order to provide more direct participation in worldwide investment opportunities.

We remain constructive on the markets, domestic and international, and continue to recommend that growth-oriented balanced portfolios allocate 70% of assets to common stocks and 30% to fixed-income and cash equivalent investments. Our equity allocation remains 63% large-cap stocks, 17% international stocks, 10% mid-cap stocks and 10% small-cap stocks.

PAINTING PROFILE



Pennsylvania Trust is proud to feature the work of artists with ties to Pennsylvania, such as Joseph Sweeney (b. 1950), a graduate of the Philadelphia College of Art (now the University of the Arts) who holds a Masters degree from Penn State University. Sweeney has taught classes at the Pennsylvania Academy of the Fine Arts, The University of the Arts, Wayne Art Center, Woodmere Art Museum, Cabrini College and Chester Springs Studio. Shown above is "Farm Scene with Clouds."

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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.