Mitchell McLeod Pugh & Williams
Investment Adviser

1ST QUARTER 2007

MITCHELL MCLEOD PUGH & WILLIAMS
INVESTMENT ADVISER

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S&P Sector Performance (YTD 3/31)

Consumer Discretionary	*-0.99%*
Consumer Staples	*1.59%*
Energy	*1.72%*
Financials	*-3.44%*
Health Care	*0.62%*
Industrials	*0.58%*
Information Technology	*-1.10%*
Materials	*8.38%*
Telecom Services	*6.36%*
Utilities	*8.43%*

Source: Standard & Poor's. Returns are price change only

Special points of interest:

- Low cost borrowing has increased tremendously in recent years. Nowhere is this more evident than with companies in the S&P 500 Index who have used this available leverage to buy back more than $431 billion of their own stock during 2006. This is approximately three times what was repurchased in 2003 by these same companies.
- A recent congressional proposal would index for inflation the cost basis used in calculating long term capital gains tax on assets purchased in 2008 or beyond. The legislation was introduced by Rep. Mike Pence, R-Ind and has been sent to the House Ways and Means Committee.

A VOLATILE START TO THE YEAR

Capital Markets	*YTD*	*QTD*	*2006*	*5YR*
S&P 500 (1421)	0.64%	0.64%	15.79%	6.27%
S&P500 / Citi Growth	-0.09%	-0.09%	11.01%	3.45%
S&P500 / Citi Value	1.34%	1.34%	20.80%	9.06%
S&P 400 (848)	5.80%	5.80%	10.32%	10.70%
Dow Jones Industrials	-0.33%	-0.33%	19.05%	5.86%
NASDAQ (2422)	0.26%	0.26%	9.52%	5.59%
MSCI EAFE (Foreign)	4.08%	4.08%	26.34%	15.68%
LB Interm Govt/ Credit	1.59%	1.59%	4.08%	4.91%
3 Month Treasury Bill	1.32%	1.32%	5.07%	2.68%

Source: Morningstar Principia. Returns are total returns. The 5yr return is annualized

Equity markets began 2007 on the heels of an impressive ending to 2006, and the U. S. economy and capital markets were in excellent shape to start the new year. Since then, however, several factors taken together have had a significant impact on the stock market so far this year. After reaching a record intraday high on February 20th, the closely watched Dow Jones Industrials Index dropped 416 points in one session seven days later. Over the next two weeks, the Index retreated almost 6%. Equity investors became sellers, and a "flight to quality" took place. Money poured into bonds for safety, and the 10yr U. S. Treasury yield fell to approximately 4.5% in mid–March. By quarter end, however, equity markets had recovered to a point roughly where they began the year. This left investors wondering what had caused the correction, whether it was over, and where the markets would go from there. A number of factors may have come into play. First, bearish remarks by former Fed Chairman Allan Greenspan coincided with a 9% overnight decline in Chinese markets. In addition, domestic equity investors, after an extended market advance over the last four years, may have overreacted to these events. The resulting drop was significant but short of the classic definition of a correction—a 10% decline. There continues to be stock market concerns caused by weakness in the housing sector; weaker corporate earnings; troublesome inflationary data; and geopolitical issues. Overall, however, U.S. and global economies appear strong enough to weather any of these potential storms. For these reasons, we continue to remain positive about capital markets in 2007.

MMPW—OUR FIRST YEAR IN REVIEW AND A THANK YOU TO OUR CLIENTS

On January 20th, we celebrated the one year anniversary of our firm. When each of us made our decision to undertake this endeavor, we did not know what to expect, but we did share a common vision of what we wanted our firm to become. We may not be at that point yet, but we are all extremely proud of what has been accomplished over the last fifteen months. Our firm now consists of eight employees, six of whom are shareholders. We have plans to construct a new building near our current midtown location beginning later this year. And, as of this writing, we have approximately $270 million in assets under management. None of this would have been possible without the trust and confidence of our clients. Because of this, we would like to take this opportunity to say "thank you."