Mitchell McLeod Pugh & Williams
Investment Adviser

2nd Quarter 2008

MITCHELL MCLEOD PUGH & WILLIAMS
INVESTMENT ADVISER

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S&P Sector Performance (YTD 06/30)	
Consumer Discretionary	*-13.86%*
Consumer Staples	*-8.54%*
Energy	*8.12%*
Financials	*-30.89%*
Health Care	*-13.47%*
Industrials	*-14.59%*
Information Technology	*-13.43%*
Materials	*0.19%*
Telecom Services	*-18.90%*
Utilities	*-4.34%*

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

Points of Interest:

- Economists indicate that second quarter real GDP will be up 2% or more. In fact, given the growing impact of Federal Reserve rate reductions and the fiscal stimulus package, we appear so far to have avoided the classical definition of a recession (two consecutive quarters of negative growth).
- Worldwide consumption of energy is forecast to grow by 50% by 2030 according to the Energy Information Administration (EIA).
- FDIC reported 90 banks on its list of troubled institutions. This is up 18% from the first quarter, but far less than the 1500 on the list in 1990.

Searching for a market bottom

Capital Markets	*YTD*	*QTR*	*2007*	*5YR*
S&P 500 (1,280)	-11.91%	-2.73%	5.49%	7.59%
S&P500 / Citi Growth	-8.07%	2.05%	9.13%	6.33%
S&P500 / Citi Value	-16.04%	-7.79%	1.99%	8.76%
S&P 400 (819)	-3.90%	5.43%	7.98%	12.61%
Dow Jones Industrials (11,350)	-13.38%	-6.85%	8.89%	7.20%
NASDAQ (2,293)	-13.55%	0.61%	9.81%	7.16%
MSCI EAFE (Foreign)	-10.96%	-2.25%	11.17%	16.67%
LB Interm Govt/ Credit	1.43%	-1.53%	7.39%	3.49%
3 Month Treasury Bill	0.99%	0.43%	4.77%	3.20%

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

The second quarter of 2008 began with some optimism that financial markets were beginning to rebound. However, three months later credit markets continue to struggle, payroll jobs continue to fall, oil prices are at or near all time highs, housing remains very weak, and stock prices have moved into bear market territory (since the quarter end). Most recently, concerns have been focused on such well known names as Fannie Mae and Freddie Mac. And, as if this were not enough, inflation remains an issue with rising energy and food costs being passed through to the consumer. The obvious question now is when will all of this improve? While no one knows the exact answer, we should take note of several positive indications. One, the economy is performing much better than one might think. The bulk of our weakness is concentrated in housing and finance. These areas receive the most headlines, but represent only a portion of our economy. Much of the manufacturing and technology sectors are doing well.

Secondly, some data now suggest that the bottom of the housing market is within sight. Unsold inventories have declined for 13 straight months, and housing starts are now less than half of their peak number. A turnaround in housing would greatly improve our economic outlook. In terms of energy, consumers are curbing their demand for gas, and new supplies are being sought. Finally, it is clear that the U.S. Treasury and Federal Reserve are committed to stabilizing our financial markets. Given these factors, the despair in the market may be nearing a peak and equities could be set for a turnaround. Historically this has occurred when least expected and when pessimism is at its worst. It remains a question not of "if" but "when."

Challenging times

In times such as these, we hold to our belief that maintaining a sound investment plan is crucial. Throughout modern history, there always have been periods of high volatility and market fluctuation. In this current age of 24 hour news coverage, it is easy to focus on the crisis of the minute. The prudent approach is to have a solid plan based on proven principles such as asset allocation, diversification, and an avoidance of market timing. Sticking to a plan that spreads your money across different types and ranges of asset classes (stocks, bonds, mutual funds, and cash) in an appropriate manner is key to riding out short term volatility and reaching financial goals. We realize that this is easier said than done when markets are most volatile; it is, however, a time tested and proven approach.