Mitchell McLeod Pugh & Williams
Investment Adviser

3RD QUARTER 2007

MITCHELL MCLEOD PUGH & WILLIAMS
INVESTMENT ADVISER

Volume 2, Issue 4
October 17, 2007

S&P Sector Performance (YTD 9/30)

Consumer Discretionary	*-4.28%*
Consumer Staples	*8.08%*
Energy	*27.21%*
Financials	*-6.83%*
Health Care	*5.88%*
Industrials	*15.76%*
Information Technology	*15.63%*
Materials	*20.51%*
Telecom Services	*15.12%*
Utilities	*8.48%*

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

Points of Interest:

- Eight of the ten economic sectors have produced a positive return for the year. Only the Consumer Discretionary and Financial sectors are negative after having been impacted by tightening credit, housing troubles and weaker consumer spending. The leading performers have been Energy and Materials driven by higher oil prices and strong global demand.
- The S&P500 has reached its March 2000 level of 1527. However, on a relative basis, stocks appear much more fairly valued with a P/E ratio of only 18 verses the market P/E of 31 in March of 2000.

A VOLATILE BUT POSITIVE QUARTER

Capital Markets	*YTD*	*QTD*	*2006*	*5YR*
S&P 500 (1,527)	9.13%	2.03%	15.79%	15.45%
S&P500 / Citi Growth	10.54%	3.77%	11.01%	12.93%
S&P500 / Citi Value	7.79%	0.39%	20.80%	18.04%
S&P 400 (885)	11.01%	-0.87%	10.32%	18.17%
Dow Jones Industrials (13,896)	13.31%	4.19%	19.05%	15.44%
NASDAQ (2,701)	11.85%	3.78%	9.52%	18.18%
MSCI EAFE (Foreign)	13.15%	2.18%	26.34%	23.55%
LB Interm Govt/ Credit	4.36%	2.87%	4.08%	3.82%
3 Month Treasury Bill	3.81%	1.19%	5.07%	3.00%

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

Capital markets began the second quarter with positive momentum. This was largely based on expectations of the Federal Reserve's lowering of rates later in the year. The Fed did in fact lower rates two and one half months later, but only after a housing meltdown and credit concerns almost shook the market. The first several weeks of July saw the S&P500 and the Dow Jones Industrials reach all time highs as they were driven by merger news and strong corporate earnings. In late July, a plunge in new home sales and a virtual shutdown of the sub-prime lending market resulted in a sharp reaction by investors. Equities sold off and treasuries rallied as investors became extremely concerned about the health of credit markets in the U.S. and around the world. The seemingly endless supply of credit offered on attractive terms to both consumers and corporations quickly dissipated, and the U.S. expansion was being threatened. Chairman Bernanke and the Federal Reserve Board were put in a position of having to weigh potential inflationary concerns against capital markets that were quickly losing confidence. After injecting liquidity into the market on several occasions in early August, the Fed lowered the discount rate (the rate at which financial institutions can borrow from the Fed) by 50bp on the 17th. This move gave investors some comfort that the Fed would not allow a freefall in the market. This proved to be correct as the Fed lowered the Fed Funds Rate by 50bp in September. Markets rallied and ended the quarter in positive territory. So, despite all the market volatility, media hype and doomsday scenarios, we enter the fourth quarter in good economic condition with the risk of a recession no more likely than it was in July.

STYLES—GROWTH VS. VALUE

After trailing value stocks for the past six years, growth companies outperformed across all capitalization ranges in the last quarter. In fact, according to the Russell Indexes, the same can be said for the year to date period as well. Growth and value style companies can be defined in various ways. In general, growth investors concentrate on companies that exhibit strong potential for future growth. The companies purchased today will be worth more as they grow in subsequent periods. Conversely, value investors seek companies that have been under priced by the market because of various reasons. They will benefit when the price is corrected at some period in the future. Instead of timing, we believe in having representation from both styles in a well diversified equity portfolio.