



Greetings

DEAR CLIENTS:

I officially arrived on the scene at Davidson Trust Company as a part-owner and the new Chief Executive Officer on February 1st. I couldn't be happier with the smooth transition that has taken place. Jim Davidson remains an owner and will serve as Chairman of the Board and all of the other partners have also decided to stay and continue their ownership and roles in serving clients. Although it's true we have a new major shareholder, Boston Private Financial Holdings, Inc., their presence is benign, supportive, and adds welcome financial strength. Davidson Trust Company will continue to be managed locally.

I've already had the pleasure of meeting many of our clients and look forward to the opportunity to meet the rest in the coming months. Rest assured that you will continue to receive the expert personal service to which you have become accustomed. When changes do occur, I trust you will see them as evolutionary improvements, not unsettling disruptions. Despite being greeted by turbulent markets (discussed elsewhere in this document), I am genuinely excited and pleased to be here and invite you to contact me directly with any questions or concerns.

Kindest regards,

Alvin A. Clay III

Chief Executive Officer

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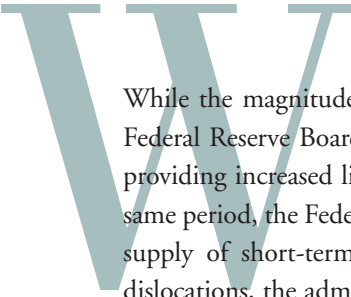
ECONOMIC OUTLOOK

The sharp increase in market volatility

that was initially triggered by the rapid deterioration in the sub-prime mortgage market continued to accelerate through the first quarter of 2008. The increase in interest rate quality spreads created massive illiquidity in the financial markets, especially within the mortgage backed securities market, and financial intermediaries were unable to refinance their short-term debt obligations. With adjustable rate mortgage step-ups creating a sharp increase in defaults, the domestic housing market has continued to weaken, consumer confidence has shown a marked decline, and discretionary consumer spending has fallen from mid-year 2007 levels. The increase in risk avoidance that initially characterized the sub-prime mortgage area has, over the past six months, spread throughout the financial sector resulting in securities write downs within mortgage backed securities and consolidated debt obligations of over \$500 billion since September of last year.

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SPRING
2008



While the magnitude of the illiquidity in the financial markets has grown dramatically over the past six months, the Federal Reserve Board has taken decisive action in reducing the Discount Rate and the Federal Funds Rate, as well as providing increased liquidity in the markets through the broadening of the securities lending benchmarks. During this same period, the Federal Reserve has aggressively increased the availability of liquidity in the system through the increased supply of short-term treasury securities. While near term liquidity was being provided to resolve the near term dislocations, the administration working with Congress, has passed a fiscal stimulus package that will provide tax rebate payments to the majority of consumers while also providing spending stimulus to the business community through the use of enhanced temporary depreciation allowances and corporate spending credits.

Currently, illiquidity remains an issue. The interest rate credit risk premium between the 10-year Treasury and a high yield corporate bond was recently as high as 8.4% (840 basis points) versus 2.5% (250 basis points) at mid-year 2007. While near term illiquidity problems are likely to continue over the next three months, the decisive action of the Federal Reserve has put in place the necessary responses to alleviate the problem over the next year. The accelerated rate of adjustable rate mortgage step ups that began in early 2007 will begin to moderate approaching the fourth quarter of 2008. Illiquidity within the short-term security market will also be showing significant improvement as stressed portfolios mature and are rolled into less leveraged investment vehicles.

The magnitude of the current sub-prime dislocation has been one of the outcomes of the environment of low interest rates, massive liquidity, and muted risk premiums that have existed since 2001. The excesses created by this environment have created a temporary dislocation within the financial markets that is currently being corrected. Once the near term dislocation has been resolved we may expect to see a return to a more reasonable interest rate environment where incremental risk requires a higher rate of return and where the yield curve resumes a positive slope in anticipation of the return to a more traditional inflationary risk premium.

The economic recovery that began in the fourth quarter of 2001 entered its seventh year as we began 2008. This compares to an average post World War II recovery duration of five years. While the recovery to date has been more sustainable than most, it is premature to say that it has ended. The current retrenchment brought on by the financial markets disruption will certainly cause a significant slowdown in consumer spending and corporate investment spending during the first half of 2008. The decisive actions of the Federal Reserve and the regulators however should result in a lessening of volatility as we move through the second quarter and, coupled with the tax stimulus package expected to impact the economy by mid year, positive economic momentum should improve in the second half of 2008.

A recession is defined as two consecutive negative quarters of growth in Gross Domestic Product.

Based on current available information, it is expected that the first quarter will show modest, if any, GDP growth with only a gradual improvement in the second quarter. The second half of the year, however, should show a reacceleration of positive momentum as the stimulus package combined with the improvement in financial markets should begin to strengthen consumer confidence and consumer spending patterns. In spite of the marked deterioration of economic momentum seen to date, the current economic environment, while difficult, may turn out to be a temporary softening in a continuing period of economic growth.

In spite of the marked deterioration in economic growth in the first half of 2008, economic momentum is expected to improve through the summer. Fortunately, despite the recent downfall of the sub-prime mortgage market, the overall economy maintains numerous positive supports. These economic positive trends include: continued low real interest rates across the high quality maturity spectrum; a weakened dollar that has increased the competitiveness of domestic goods in international markets; a continuing relatively low unemployment rate; strong five-year earnings growth and profitability

trends; and historically strong balance sheets within the corporate sectors not currently impacted by the sub-prime mortgage illiquidity issues. For the full year 2008, Real GDP growth is expected to recover to the area of 1.8%. Real Consumer Spending is expected to increase by 1.7%, while Government Spending should grow by 2.3% and Corporate Spending will increase at a rate near 2.5%. Core inflation is expected to average 2.0% to 2.8% for the year creating increasing investor attention once the current financial dislocations within the sub-prime area have begun to moderate.

Looking ahead to the Fall, the pressures brought on by the recent excesses within the sub-prime mortgage market will have passed for the majority of investors and future uncertainty will be focused on the election outcome and the anticipated future direction of the new administration.

EQUITY MARKET

Over the past six months, since the market highs last October, the equity markets have recorded a peak to trough correction of approximately 20%. During this period, while the majority of industrial, technology, and consumer oriented companies continued to post earnings gains, the spreading dislocations and mark-to-market security losses within the financial sector overwhelmed both reported earnings trends and investor psychology. Over the next three months as the magnitude and final parameters of the remaining sub-prime securities problems are identified and resolved, market volatility is expected to continue with near term performance driven by headline risk rather than longer term fundamentals. Approaching the third quarter, however, investor focus is expected to return to longer term relatively positive fundamental trends.

Based on current consensus earnings, the equity market, as measured by the S&P 500, is being valued at 14 times estimated 2008 operating earnings of \$91 and 13.5 times preliminary 2009 estimates of \$96. At current valuation levels, the market is selling below its longer term average valuation level and is viewed as attractive for those investors willing to look beyond the current period of financial volatility and uncertainty to the longer term potential that exists within a well diversified investment portfolio of high quality stocks.

INTEREST RATES

The Federal Reserve Open Market Committee has been boldly introducing **new ideas** to provide liquidity to the financial markets, in essence attempting to shore up credit and the availability of cash in one of the most challenging fixed income markets we have seen in decades. We applaud them for their creativity. Their recent moves are an attempt to keep the economy moving forward as they comply with their mandate of maintaining full employment. Unemployment rises as economies stall or erode; the Fed is caught between supporting employment and inflation knocking at our doors!

Adding to the current situation is the concern about bond insurers. At the end of February, the combination of bond insurer concerns plus hedge funds unwinding municipal bond positions and increased supply temporarily drove bond prices down. Increased window dressing and flight to quality pushed Treasury yields even lower.

The municipal bonds that are held in client accounts were not directly involved in this added municipal supply; however, this mega-supply affected not only municipal markets, but taxable markets as well by drawing taxable buyers into the municipal markets. Some municipal bonds were yielding higher rates than Treasuries and other taxable instruments. Consequently, the result of attempting to maintain buyers in the taxable market was to cheapen agency and corporate bond

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Estate Planning Corner

Importance of Incorporating Beneficiary Designations into Planning

An extremely important part of estate planning is to incorporate your beneficiary designations into the planning. A beneficiary designation is a document which permits the direct disposition of an asset to a specifically named beneficiary outside the provisions of your Will. Typically, life insurance policies and retirement plans are assets which pass to beneficiaries in this manner.

The goal is to ensure that the beneficiary designations are current and consistent with the balance of your estate plan. Usually, you are permitted to name a primary beneficiary and a contingent beneficiary in the event the first beneficiary is not living at your death.

The beneficiary designations should also be coordinated with the tax provisions under your other estate planning documents. The tax provisions should be reviewed to ensure that any death taxes due are being charged to the various shares of your estate, life insurance and retirement plans as desired.

We also suggest you periodically review the appropriateness of your beneficiary designations and keep copies with your current estate planning documents. If you have any questions regarding the current beneficiary designation of your Davidson Trust Company IRA account or would like to further discuss the topic, please feel free to contact your account administrator.

prices over the past few weeks. Corporate bonds that were selling at 80 basis points (.08%) above Treasuries one year ago are now selling at 300 basis points above Treasuries. This disruption has resulted in a two year AAA rated municipal security recently offered at a 2.33% yield and a 2-year Treasury security offered at a 1.43% yield.

What does all of this mean? A more positively sloped yield curve, continued credit quality concerns and a build up of cash reserves. As the markets raise yields to attract buyers and the availability of credit tightens, mortgage rates follow suit adding more fuel to the mortgage credit situation, thus the increase in mortgage and consumer credit default rates. The good news is that any bonds we purchase for our clients are reviewed in detail as if the insurance feature does not exist. We like to be prepared for those "what if" situations. Better safe than sorry.

The Federal Reserve will continue to closely monitor any domestic and global signs of economic erosion which may keep our rates low right now. They will be keenly aware of any signs of impending inflation. Their job is to balance the two. Our call continues to be a falling or flat funds rates through the better part of this year and rising rates by 2009, as the economy recovers and the Fed shifts gears to attack inflation.

PRIVACY POLICY

We know you are concerned about the confidentiality and security of your nonpublic personal and other client information you provide to us. Davidson Trust Company does not sell or otherwise distribute nonpublic personal information to other organizations or individuals.

Once your information is on our systems, it is protected from outside access and our employees are not permitted to disclose any information they have access to as a result of their work with outside individuals or organizations. In addition, we maintain physical, electronic and procedural safeguards to protect your nonpublic personal information from unauthorized use.

Should you be concerned about the accuracy of any information we have in our database concerning you, you may request a copy of your records by contacting our office. We will send you a copy of your records for your review and update, if needed.

If you have any questions or comments regarding our privacy policy, please email us at info@davidsontrustcompany.com

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