



SECURITY NATIONAL TRUST COMPANY

To our clients and friends:

Much has transpired since our last quarterly update. In Washington, we inaugurated a new President, who brought with him a new team and new ideas on how to revive our economy. Also in Washington, we approved a new spending package of over \$700 billion. Unfortunately, on the streets (Wall and Main), investors, consumers and bankers have remained cautious. Until last week, it seemed that unless the stimulus rubber hit the road, or shovel hit the dirt in a big way, those with cash were happy to sit tight and wait. Indeed, in the past week some investors have tested the waters, and provided a bounce in equity prices. Also this week, a rather large new player in the fixed income markets, the Federal Reserve, announced that they would be buying to the tune of about \$1 trillion, and bond prices rallied. What we hope to provide here is some insight into what this activity means for investors, as well as an indication of how our portfolio managers are positioning client portfolios for the current environment. As always, please feel free to contact us with your questions or concerns.

Economic Conditions

Overall, economic numbers in the first quarter of 2009 showed no signs of a recessionary trough. Employment reports indicated extensive layoffs across all sectors. Since the beginning of the recession in January 2008, the U.S. has given up 4.4 million jobs. GDP in the fourth quarter of 2008 was revised downward from earlier estimates falling by 6.2% from an originally reported 3.8% decline, primarily as a result of an inventory adjustment. Much has been written about the housing market and its central role as a cause for the current recession. The housing market remains a core problem area, and most economists feel that until this market stabilizes it will be hard for the balance of the economy to recover. The numbers over the past quarter provided little optimistic evidence on this front. Home sales have continued to slide in the face of falling mortgage rates and falling prices. Finally, given all the aforementioned circumstances, the consumer remains in the dumps. Not a lot has changed economically over the past quarter, but there have been some glimmers of hope, particularly over the past few weeks. Retail sales in February were surprisingly strong at the core level, after a 1.8 percent rebound in January, and housing starts made a significant comeback from their depressed January levels. We're not jumping for joy, but these glimmers may be indicative of some bargain hunting.

Now that the Obama administration has been in place for a few weeks, we are starting to see more of a concerted effort from Washington. After a very disappointing announcement in early February, the Treasury is beginning to fill in some of the details regarding how they plan to repair the credit markets. We think it is likely that the Term Asset-Backed Securities Loan Facility (TALF) will have a positive impact on consumer and small business credit markets. In addition, with their announcement yesterday, the Fed has effectively put a lid on interest rates as it plans hundreds of billions of purchases in Treasury and mortgage backed security markets. This activity should facilitate lower rates for those interested in and, more importantly, those who qualify for home mortgages. Finally, some of those "shovel ready" projects are getting started, but the bulk of the stimulus package will likely take some time to implement. We think it is safe to say that the Obama administration is doing all it can to get the economy growing again. Unfortunately, the levels of spending are likely to put us all in a hole unless GDP growth very quickly reaches above trend levels. That's probably not going to happen, and if it does inflation will be a serious consequence.

Market Developments

Equity markets have come off their cycle lows in recent weeks, but remain down. The S&P 500 fell by as much as 25% year-to-date in early March, but since then has recovered about ½ of those losses and now stands at 791 down about 12% year-to-date. Several factors contributed to the market bounce, largely through a statement from Vikram Pandit the CEO of Citigroup who got the market moving last week with an internal memo to Citi employees

regarding the company's profitability. Mr. Pandit's comments indicated that the bank has been profitable for the first two months of the 2009. This profit does not account for any of those pesky potential write-downs, but the market took it as news worthy of a tidy 5% rally. Also helping things along were statements by Barney Frank that the uptick rules may be reinstated, which would limit short selling.

Treasuries are near their levels from the end of the fourth quarter, but have gone through substantial gyrations over the quarter. After brief dip to a low yield near 2.25% early in the year, yields on the ten-year treasury rose above 3.00% before rallying back after the Fed's announcement this week. Right now the ten-year yields 2.55%. The short end of the yield curve went through a similar swing with the two-year, presently at about 0.85%, ranging from about 0.75% to just over 1.00%. In the corporate space, yields tightened for high quality issuers, while spreads on lower rated issues widened.

Portfolio Management & Asset Allocation

In our update last quarter, we mentioned the importance of discipline in the investment management process. The continuing recession has not and will not change this emphasis. We work with clients to insure that objectives are appropriate for their circumstances, and that their ability and desire to take risk are reflected properly in their asset allocation. From time-to-time, as circumstances change, it becomes necessary to make adjustments to these objectives. If your circumstances have changed, it is important they are given consideration with respect to your objectives. These adjustments, however, should be gradual and related to changes in your situation, not movements in the financial markets.

We understand your concern with the current market conditions and their impact on account levels. With a tremendous flow of dismal news coming from many sources, the idea of cashing out and waiting for smoother seas has certainly crossed many investors' minds. What is important to keep in mind is that recoveries often start off rapidly, and the probability of identifying the market bottom is very low. The market has a habit of recovering long before the economic seas have calmed, and when waiting for clearer days investors miss a large part of a recovery. Some examples: From June of 1932 to June of 1933, total return on large company stocks was over 150% with 2/3 of that gain occurring in the first 3 months. In 1933, 4,000 banks failed and the unemployment rate stood near 25% and Roosevelt took office. From its bottom in October 1974, the market increased 32% by February 1975; unemployment peaked at 9.0% in May of 1975. In the three months following the 1987 Black Swan bottom, the market increased 21%. Investing in equities is a long-term proposition and realizing higher potential returns sometimes tests investors' fortitude.

We believe that prudence leads investors to buy above market bottoms and sell below market tops. Maintaining this discipline can be unnerving at times, but in the long-run it should serve to reduce risk and improve performance. There are two situations in the market at this time that we feel prompt tactical activity in our accounts. The first is the situation in government securities markets. The government is pumping a gigantic amount of money into our system to keep interest rates low. The longer-term concern is that as recovery begins inflationary pressure builds and yields rise, hurting the value of intermediate to longer-term fixed income securities. We are in the process of developing strategies to protect those valuations should this occur. The second consideration is the shifting in asset allocation driven by market performance. As equity markets have declined, the allocation to this asset class has also fallen as a proportion of investment portfolios. We believe, based upon current valuation levels, realigning of portfolios to target allocation levels is appropriate. We have begun this process, and, as always, we keep individual situations in mind as adjustments are made.

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