Second Quarter 2009

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In order for valuations to move much higher we must see tangible signs of growth and recovery.

DEIGHAN

ASSOCIATES

INVESTMENT QUARTERLY

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MARKET COMMENTARY

As more and more financial experts speak of "green shoots" poking up, it may be useful to keep this old Spanish proverb in mind: More grows in the garden than the gardener sows. Despite our nation's best efforts to tend to a battered crop, we must now deal with the weeds that threaten to choke out and prolong a recovery.

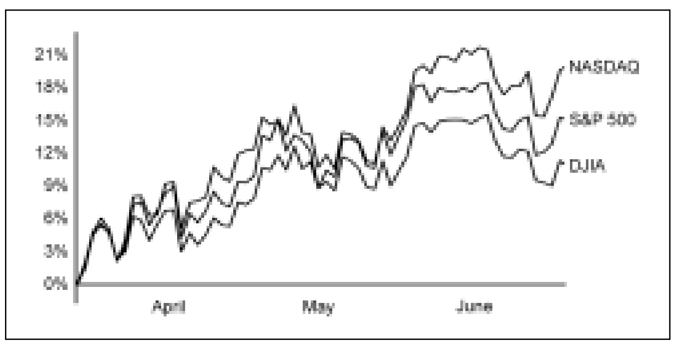
The market's rebound off March lows has made it easy to see green shoots just about everywhere. Some analysts have even declared the recession to be over. But thus far, these green shoots have been limited to what's called second derivative improvement. That is, things have simply been getting worse at a slower rate than before. This slower rate is what has bred optimism and fueled markets, because everyone hopes it points toward a bottoming in the economy. However, circumstances remain tenuous. The market has wrung what it can out of current readings, and in order for valuations to move much higher we must see tangible signs of growth and recovery. This may take time. The recent larger than expected drop in nonfarm payrolls illustrates that we are not out of the garden yet. In the interim, we see three scenarios as being possible.

The first is that the market remains relatively flat over the near-term. Equities have rallied to such a degree in such a short period of time that there may exist a disconnect between valuations and the timeline of those valuations. For example, we may have reached six-month prices in just three months. This would imply a three month flat period to make up for it. In truth, it is difficult to know the exact disconnect between valuation and time, but we should be prepared for a flat period where the market pauses and digests.

The second possible scenario is a downturn driven by a pullback in investor optimism. Given the rapid recovery in several indices, such as emerging markets, it would be natural for investors to consolidate short-term gains which would drive down prices.

The third scenario is a W-shaped or double-dipped recovery, whereby the economy recovers for a time and then declines again, before recovering fully. In this case, we may see the market climb even slightly higher before falling more drastically in the near-term. A double-dipped recession is a relatively rare phenomenon, but it is important to be aware of the possibility given the uniqueness of our current situation.

Considering the foregoing, it should be apparent that we think a full recovery is some time away. We don't say this to incite panic. In fact, we are confident that the market's woes will heal in time. We are also encouraged by the alacrity with which markets have risen over the past few months. There is a mountain of cash on the sidelines, and investors seem willing to exchange cash for stocks when given good news. What we need is sustained good news. We may be portfolio managers in name, but in truth we



Period: April 1, 2009 - June 30, 2009

2Q09
Investment Results:

NASDAQ
Composite

S & P 500

Dow Jones
Industrial Average

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MARKET COMMENTARY *continued from page 1*

are risk managers. It is our duty to identify scenarios that may negatively impact portfolios and weight investments accordingly.

So, what are some of the weeds that threaten to choke out the budding recovery? They are many and varied, but we will concentrate here on just a few: the consumer, commodity prices, and government spending.

Consumers account for roughly 70% of gross domestic product, but they remain weak. On the one hand, a sustained recovery relies on the strength of the American consumer. On the other, we're witnessing a fundamental change in the way consumers allocate their money. Over the past several years, consumers took on more and more debt to make purchases they otherwise could not afford, including houses. This drove the U.S. economy upward in an unsustainable manner. Now, like the banks, Americans are in the process of deleveraging, paying off their debts and putting more money into savings. According to the U.S. Department of Commerce, the annually adjusted personal savings rate is the highest it's been since the early 1990's. Because of the recession, there are fewer consumers with jobs, and wage growth has slowed for those who are employed. This is driving consumers across the board to consume less and save more, putting a lid on economic growth.

Commodities became wildly overbought prior to the recession, and they became wildly oversold shortly thereafter. However, prices are again moving upward. Oil, for example, has doubled in price since hitting a December low around $33 per barrel. Much of the surge in commodity prices has been based on speculation for future demand, not on current demand, which remains muted. The argument is that China and other developing nations will lead the way for a global economic recovery, and these same nations will require increasing commodities as they resume growth. Higher commodity prices result in higher prices for those things U.S. consumers absolutely need, namely gasoline, heating oil, and food. If these items rise in price before consumers have a chance to recover some strength, then this could further reduce purchasing power and prolong recovery.

The U.S. has not been alone in flooding credit markets with cash in hopes of staving off a greater crisis, and, for the most part, these monetary actions have not been inflationary. This is because monetary infusions have been offset by credit destruction as banks deleverage. Banks are hoarding cash rather than making it available to consumers. However, the government's fiscal actions have also resulted in vast sums of money spent. There is risk that all this spending, if not tempered, could decrease demand for the dollar and weaken its standing relative to other world currencies. This would increase the costs of imported goods and exacerbate the problems presented by rising commodity prices.

We've been busy positioning portfolios to account for each of these issues and scenarios. Our typical client portfolio has exposure to equities in the event that we are in fact transitioning from a roiling storm toward a calmer horizon. However, we have also increased our allocations to long-short and market neutral funds, which generally excel during flat periods. To address our inflation concerns, we have added to commodities and Treasury Inflation Protected Securities (TIPS). And, to protect against further downdrafts, we have maintained an overweight to bonds and cash, as much as possible.

Like the beautiful gardens that surround our building, successful portfolios don't happen by accident.

Like the beautiful gardens that surround our building, successful portfolios don't happen by accident. They require constant attention, pruning, and weeding. Most of all, they require thoughtful design, vigilant maintenance, and a thorough understanding of risk. Portfolio risk management is all about creating a complimentary mixture of investments that act cohesively as a team. Each investment plays a specific role that helps the team as a whole compete against a variety of opponents. While the future may be anything but predictable, the investment team here at Deighan is continually working a game plan for your success.

Visit us online

www.deighan.com

FAMILY OFFICE NETWORK

These days, more and more people are using electronic communication to expedite and simplify their daily lives. With this in mind, we will soon be rolling out an online system that will have the ability to be a one-stop shop of sorts for your financial life. We have partnered with Family Office Network (FON), a company specializing in online document storage for independent investment advisors.

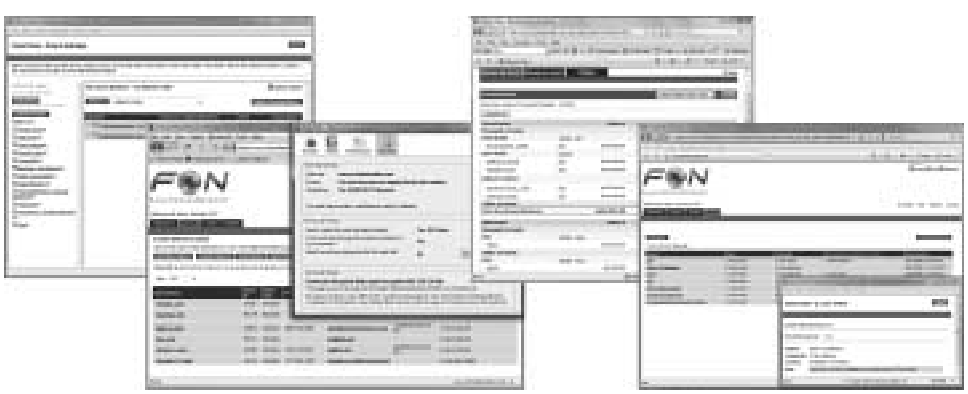
We are excited about this system for a few reasons. First, it will allow you to have secure electronic access to reports that you would normally receive from us by postal mail, such as quarterly reports, tax reports, and newsletters. It will also provide us with the ability to electronically interface with you using a secure platform. For example, we will be able to upload sensitive documents for your approval, such as letters of authorization, that we would otherwise not be able to send by email. Additionally, we can grant specific limited file access to other professionals in your life, like attorneys or accountants. Your CPA, for example, could log onto the system and access your tax folder, saving him or her time and you money. Or, you could partake in a conference call with your attorney and your Deighan advisor, each of you logged into the system viewing the same documents from different locations.

Another exciting feature will be the ability to aggregate your non-Schwab accounts into one place. This means a few things. First, for those of you who would like us to manage your outside 401(k) or 403(b), such as TIAA-CREF or Fidelity, we will be able to download information from those plans directly into our portfolio management software. This will allow us to manage your non-Schwab accounts in concert with your Schwab accounts. Second, you will have the option to view information from any financial institution with whom you do business via your FON login. For example, you could set up your FON account to show your Bangor Savings checking account and your Bank of America credit card. You control which institutions appear as part of your FON login, and you control what Deighan Associates can see. If you want to be able to view your credit card through FON, but you don't want us to see that credit card, then simply don't grant us access.

We recognize that online security must always be at the forefront of a system like this. That's part of the reason why we've chosen Family Office Network. FON's servers use state of the art 256-bit AES encryption and are redundantly backed up in San Diego, Denver, and Zurich. All emails into and out of the system are encrypted, and the system complies with SEC and FINRA retention requirements.

We plan to roll the system out over the next two months. We will send you an email invitation to join the system, as well as a notification via postal mail. It is important that we have your correct email address. Therefore, if you have any doubt that we may not have your correct email address, please contact us. We will also be contacting clients for whom we do not have email addresses. Once you are registered in the system, you will be able to login by visiting our website at www.deighan.com.

We hope that the brief description above excites you as much as it does us. The FON system will allow us to provide you with a higher level of service in a more efficient manner. Stay tuned for more information!



Soundbytes

Would you like to receive an electronic copy of this newsletter each quarter? If so, please let us know! All we need is your email address. Just send a blank email to info@deighan.com with "Newsletter" in the subject line, and we'll take care of the rest.

Did you know? You can also find electronic copies of our past newsletters on our website at www.deighan.com. In addition to providing market commentary, we write articles that address other important aspects of your financial life. Take a look!

SEASONS OF MAINE:
A CELEBRATION OF SHARED VALUES

On June 11th, we hosted Seasons of Maine, an art show featuring the artists appearing on our holiday cards over the past ten years. Other special guests included Sheila Foley from Schwab Institutional and several representatives from the Maine Community Foundation, an organization dedicated to building stronger communities. We were blessed with clear skies and hearty attendance, and a wonderful time was had by all.

The Maine Community Foundation was here to celebrate the successful launch of the new Penobscot County Fund, which recently met its starting goal of $500,000. Penobscot County now joins eleven other Maine counties that have raised funds to generate income for local community projects. The Penobscot County Fund's new goal is to reach $1,000,000. Inspired by that goal, Deighan Associates pledged to make a donation in an amount equal to 10% of the total value of art sold at the event. We are pleased to report that artists sold nearly $10,000 worth of art, and so we made a gift of $1,000 to the Penobscot County Fund. Artists were not asked to participate in gifting, but one artist was sufficiently moved to give an additional $400. We were touched and grateful.

It is one of our firm's core values to support the communities in which we live and work. And, as investment advisors, we always delight in opportunities that achieve compounded returns. In this case, artists and art lovers were able to meet, mingle, and exchange, and the Maine Community Foundation received well-deserved donations and exposure. Perfect! Because of the event's success, we have decided to host it annually in some form or fashion. We would like to extend a big Thank You to all who supported Seasons of Maine.

PORTFOLIO CHANGES

Note that the following changes were made this quarter. This does not affect all client accounts. If you have questions, please call us at 800-990-1117.

The Mosaic Company (MOS) – Added – Mosaic is the world's largest producer of finished phosphate products, and it is the world's second-largest supplier of potash. Both phosphates and potash are key components of nutritious food crops and livestock feed. As world populations continue to grow, and as developing nations transition toward meat-based diets, we see Mosaic as being positioned to benefit from a significant increase in nutrient demand. The company has a truly global presence, with facilities in ten countries and customers in thirty. Fifty-five percent of its revenues are generated outside of North America. Nutrient suppliers have seen their stock prices drop significantly over the past twelve months. What once was extremely expensive is now attractively valued. Therefore, Mosaic presents a good buying opportunity.

Ivy Global Natural Resources Fund (IGNYX) – Added – Ivy Global Natural Resources is a well-managed fund that is diversified across a variety of commodities and geographic regions. It supplements our other commodity fund, PIMCO Commodity Real Return, in that it invests directly in companies, rather than futures. Fred Sturm has been the manager since the fund's inception in 1997, and he has delivered consistent results in a volatile asset class over that time. We like that this fund is significantly underweight energy relative to its peers, because we prefer to gain energy exposure in other ways. Instead, IGNYX provides better exposure to metals and materials. We have added the fund to client accounts that meet its minimum initial investment of $500.

Disclaimer:

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