outlook

Since our last quarterly commentary, the market environment has improved. The stock and credit markets have experienced a powerful rebound. The economy has also shown signs of bottoming, as economic activity continues to worsen but at a decreasing rate. This is all good news at the margin. What is not good is that the global economy continues to be extremely fragile as the consequences of wealth destruction and the unwinding of too much private-sector debt continue to play out. There is always uncertainty in our business but we believe the range of potential economic and investment outcomes is particularly wide now. To help provide some clarity in these uncertain times we have provided our outlook for several asset classes below:

Broad domestic equity returns are projected to be in a single digit range the next few years based on most scenarios we've reviewed. More encouraging is that the recent market dysfunction has created enough valuation discrepancies that we believe we can add value to that forecast with good stock picking. Given the fragility of the economy and the extensive government intervention, it is likely that we will experience more periods of market volatility over the next year or two that could also provide us with compelling opportunities to buy quality stocks. We still believe that another powerful leg down in the stock market is possible. However, it's more likely that the systemic meltdown risk has passed and there are enough positive developments to make us believe the odds of retesting the March lows have decreased.

Emerging markets have had a strong rebound from their October trough and may be a little ahead of themselves in the short-run. However, our analysis suggests that a diversified emerging-markets portfolio has higher expected returns the next few years than developed-country stock markets, including the United States. This does not mean the emerging markets will necessarily perform better in the short run. We also recognize that emerging markets have more potential downside risk in a market sell-off. However, over a multi-year time horizon, we expect emerging markets to deliver higher returns than the rest of the world's equity markets.

High-yield bonds were extremely depressed late last year as valuations were priced at depression levels. Since then, high-yield bonds have rallied sharply, up 29% for the year and 38.8% since the end of last November. However, with junk-bond yields still in the low teens, the asset class still offers mid single-digit to low double-digit returns over five years in most scenarios. This takes into account an expectation of extremely high default levels.

Investment-grade bonds continue to be characterized by a U.S. Treasury market that is very unattractive over a five-year horizon, while other sectors are more attractive. The valuation discrepancies between Treasuries and other sectors of the market have given active bond managers an opportunity to add enormous value in recent months. We believe good potential remains, though the opportunities are not as compelling as they were a few months back. Investors will not get rich from their bond investments but decent returns are still likely over the next few years. However, as we look further out into our time horizon, inflation risk is a threat to bond returns.

Treasury inflation-protected securities (TIPS) provide an excellent hedge against higher inflation and remain a good "diversifier" for most portfolios. TIPS are designed to protect investors from inflation by adjusting the outstanding principal by the inflation rate. A recommendation of TIPS is not driven exclusively based on their current valuation. Rather, our longer-term concerns about inflation suggest it may be prudent to seek out some inflation protection in portfolios with large fixed-income weightings. These are likely to be longstanding positions in a bond-heavy portfolio.

Our comprehensive wealth management service integrates Commonwealth Trust Company's wide-ranging capabilities and highly qualified staff, with a network of external resources and advisors you may designate, such as your personal attorney or accountant. Coordinating these resources, our team of professionals can provide you with the following services:

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Our staff of investment professionals can serve as a full-service investment advisor, establishing investment objectives, developing asset allocation, analyzing risk, constructing portfolios and monitoring and reporting on performance.

TRUST & ESTATE PLANNING:
Our staff of experts can help develop plans for the effective transfer of assets through wills and trusts. We have extensive expertise serving as trustee or co-trustee for all types of personal and corporate retirement plan trusts, including trusts that have direct investments in private companies, real estate or other less liquid assets. We may also assist with the settlement of estates, serving as executor or personal representative.

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Quarterly NEWSLETTER

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Commonwealth Bank & Trust Company

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Questions abound concerning the sustainability of the budding economic and stock market recoveries. While the bull and bear perspectives are both supported by a multitude of respectable data points, the massive liquidity injections and related global governmental support programs have proved sufficient to allow the bulls to prevail of late. Eventually, real earnings growth, not dependant on government stimulus, will be required to fulfill the desired "sustained recovery". Our view is that we are in the midst of such a recovery, however, the path is marked with rugged, slippery terrain so the climb will be exhausting at times. We continue to counsel clients to maintain diversified portfolios, taking advantage of asset allocation opportunities as presented by evolving circumstances. We welcome the opportunity to assist you in analyzing your portfolio strategies and invite you to catch up on our latest thoughts and performance in this summer issue of our newsletter.

Commonwealth is a privately owned community bank offering a full complement of financial services including: Personal and Business banking, Mortgages, Private Banking, Trust and Wealth Management. We are always looking for ways in which we can better serve our current clients and prospects and we encourage you to contact us for details on these and any of our other banking services.

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Better Days, But Concerns Remain

The rally that began in March continued through the second quarter of 2009, with equity markets seeing one of the sharpest rallies in recent history. Recent months have brought some glimmers of hope to investors as the economy continued to worsen, but at a decreasing rate. Although the June job loss number came in higher than expected at 467,000, a slight rise from May (345,000), they are down from March (652,000) and April (504,000). The Consumer Confidence index moved up from 40.8 in April to 54.9 in May, then experienced a slight dip in June to 49.3. This is seen as especially important as consumer spending accounts for almost 70% of U.S. GDP. New and existing home sales improved through the quarter and retailers had some good news, with May's retail sales numbers up 0.5%, after declining 0.2% in April.

Chart 2

S&P 500 Sector Performance
***2nd Quarter 2009** (Total Returns)*

	Q2	Year to Date
Financials	35.65%	-3.31%
Information Technology	19.71%	24.88%
Industrials	18.88%	-5.84%
Consumer Discretionary	18.14%	8.56%
Materials	16.24%	13.91%
Energy	10.69%	-2.05%
Utilities	10.16%	-1.68%
Consumer Staples	9.81%	-1.78%
Healthcare	8.87%	0.22%
Telecommunication	3.42%	-3.86%

Chart 1

Market Performance - Total Returns 2nd Quarter 2009

	6.30.09 Level	Q2	YTD
Dow Jones	8447	11.01%	-2.01%
S&P 500	919	17.45%	3.18%
NASDAQ Composite	1835	20.33%	16.98%
Russell 2000	508	22.05%	2.65%
S&P Midcap	578	20.62%	8.48%
Russell 1000 Growth	410	16.31%	11.53%
Russell 1000 Value	465	16.67%	-2.82%
MSCI EAFE	1307	25.57%	8.16%
	Yield	Q2	YTD
Barclays Municpal	4.10%	2.11%	6.43%
Barclays Aggregate	4.12%	1.78%	1.90%
Barclays High Yield	12.28%	23.07%	30.43%

Despite the recent strong gains, U.S. equities were still mostly flat through mid-year; the Dow Jones gained 11.01% for the quarter, but still ended down 2.01% through June. The S&P 500 is up 3.16% for the period, after rebounding almost 35% from its low reached on March 9th. International and emerging markets were clear standouts during the second quarter with the MSCI EAFE Index gaining 25.57% and the MSCI Emerging Markets Index gaining a staggering 33.57% for the quarter. Small Cap stocks outperformed Large Cap for the quarter with the Russell 2000 returning a healthy 22.05%

While recent economic indicators are consistent with an economy that is beginning to climb from the depths of the past two quarters, many question whether or not this growth is sustainable. The US consumer has continued to deleverage, resulting in a surge in our personal savings rate. One year ago, American consumers were saving between zero and one-percent of our personal disposable income. Last month, our savings rate hit 6.9%, a 15 year high. Ultimately, this will lead to a stronger financial foundation for our economy, but right now, it means that the typical consumer may be an unlikely candidate to propel the markets to new highs. With uncertainty surrounding home prices, unemployment, auto bankruptcies and federal spending, the volatile market conditions we have seen will likely continue.

Performance Results

	Managed Equity Composite 1,4	Small Cap Composite 2,5	Multi Cap Composite 3,6	S&P 500	S&P Mid Cap	S&P Small Cap7
Second Quarter	14.05%	18.26%	21.69%	15.93%	18.75%	21.06%
One Year	-23.38%	-20.72%	-19.33%	-26.21%	-28.02%	-25.31%
Three Year	-7.02%	-6.85%	-7.12%	-8.22%	-7.53%	-9.56%
Five Year	-1.10%	3.91%	-3.31%	-2.24%	0.36%	-0.90%
Since Inception[4]	7.58%	NA	NA	6.57%	9.53%	NA
Since Inception[5]	NA	8.22%	NA	-1.02%	5.05%	5.00%
Since Inception[6]	NA	NA	7.12%	7.77%	11.04%	NA

There is no assurance that any of these investment strategies will meet its investment objective. Performance results for each strategy are computed on the strategy's overall returns. Each strategy and index includes the reinvestment of dividends. Past performance does not guarantee future results. Current performance may be lower or higher than the performance results quoted. [1] Gross of management fees; performance results of CB&T; actual performance results would have been lower as a result of investment advisory fees. [2] Net of management fees. Performance results since January 1, 1999 were obtained using sub-advisers engaged by CB&T. Assets under management using this small cap strategy range in amount from $2.6 million at January 1, 1999 to $27.2 million at December 31, 2005. Small company stocks may be subject to a higher degree of market risk than the securities of more established companies because they tend to be more volatile and less liquid. [3] Net of management fees; performance results of SMC Capital and/or its principals as advisor from inception to 2/28/06 and as sub-advisors to CB&T since 3/1/06. [4] inception date 7/1/93. [5] inception date 1/1/1999. [6] Inception date 7/1/1989. [7] Index began 12/31/1993.

Fixed Income

Fixed income has, for the most part, performed as expected throughout 2009. Treasury yields have experienced an uptrend, although there has been recent improvement in bond prices. Corporate and municipal bonds have outperformed and are somewhat vulnerable to increasing rates. High-yield bonds have produced tremendous returns, even surpassing equities. Short-term rates, such as money markets, remain extremely low. Inflation expectations have been moving higher since bottoming at 0% in November, but have also had some recovery. As measured by the TIPS market, 1.8% was the assumed 10-year inflation rate on June 30.

The Federal Reserve has kept its targeted Funds Rate at 0-0.25%. The Fed's "quantitative" easing through asset purchasing has kept mortgage rates relatively low and global cooperation by policy makers to reflate the economy continues. In the U.S., there is talk of yet another stimulus package, even though so little of the already approved stimulus funds have yet to be disbursed.

For the second quarter, the widely quoted 10-year rose 0.9% to 3.5%. This translates into negative returns for U.S. Treasuries. Agency & Mortgage-backed returns were basically flat. Credit & High Yield produced big returns of 9% & 23% respectively.

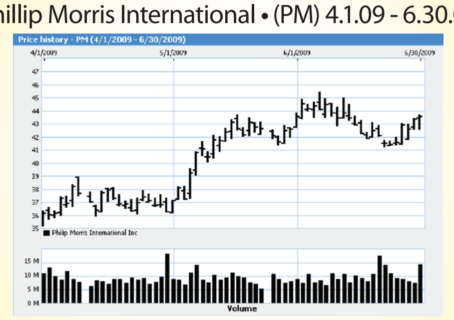
Managed Equity Composite

Total return for the Managed Equity Composite was 14.1% for the second quarter of 2009 compared to 15.9% for the S&P 500., 25.5% for the MSCI EAFE Index and 20.6% for the Russell 2000 Index.

Vulcan Materials (VMC), the largest producer of aggregates in the U.S., saw its share price slip 2.7% for the quarter as sluggish housing and economic conditions persist. VMC recently announced plans to cut the quarterly dividend to $0.25 from $0.49 and to offer 11.5 million shares of common stock. This will improve Vulcan's financial flexibility for potential acquisitions, strengthening its position in the marketplace. Despite continued short-term uncertainties, Vulcan's collection of quarry assets, high barriers to entry and the ability to implement price increases support the wide moat rating for the company, and the company should benefit from positive secular trends in the long run. The $30 billion stimulus package for roads and public transit projects should alleviate the recent malaise. For 2010, management expects aggregate volumes to grow 15% and pricing to improve 6-7%.

Philip Morris International (PM), which was spun out of Altria (MO) in 2008, posted gains of 22.6% in the quarter. Philip Morris International estimates it controls nearly 16% of non-U.S market share, making it the second largest tobacco company behind China National. PM has significant opportunities to grow both organically and through acquisition. The recent acquisition of the South African operations of Swedish Match and the joint venture with China National help bolster the company's market position and distribution network. PM has also identified countries such as India, Bangladesh and Vietnam as lucrative growth markets. While the slowing global economy may pressure margins and volumes in the short run, the recent strength of the dollar remains the biggest headwind. Despite generating nearly all off of its revenue in foreign markets, the company is based in the U.S. and the rising dollar mutes actual results. President Barack Obama recently signed a law giving the FDA power to restrict ingredients such as tar, limit advertising to young people and approve the sale of new products. This will have little to no impact to PM. However, increased regulation, litigation and/or taxation in foreign markets are the main risks long term.

Phillip Morris International • (PM) 4.1.09 - 6.30.09



Science & Technology Strategy

The sharp rally in the information technology sector, which began in mid-March, continued through the second quarter. As a result, the tech-heavy Nasdaq Composite ended the first half of 2009 up 16.4% (before dividends), significantly ahead of the S&P500. The Science and Technology Strategy maintained its lead over the Composite, posting a year to date return of 20.9%. This outperformance was boosted by the Strategy's top performer for Q2, Intuitive Surgical (ISRG), which gained 71.6%. The stock had taken a beating in the prior quarter, based on investor fears that medical device demand would wither in the face of a worsening economy and the threat of healthcare reform. Yet despite this negative backdrop, the company reported better-than-expected demand for its robotic surgery platform when it released first quarter earnings in April, propelling the shares. Going forward, the secular trends appear to favor Intuitive Surgical, as hospitals emphasize cheaper, less invasive surgical procedures seeking to improve patient care while cutting operating costs. On the downside, Monsanto (MON) represented the Strategy's laggard, declining 10.2%, driven by a delayed planting season caused by unseasonably wet weather in the Midwest. We view this pullback as a classic buying opportunity, as much of the near-term shortfall will be made up later in the year. Moreover, long-term demand for the company's genetically-designed seed corn remains robust, as farmers seek to boost productivity through yield gains. As such, we will maintain our core position in the shares while looking to add opportunistically.

Intuitive Surgical • (ISRG) 4.1.09 - 6.30.09

Although the worst is likely behind us, corporate buyers of info tech will continue to be cautious in their discretionary purchases as will consumers, implying that the demand recovery for devices such as cell phones and personal computers will be a long, slow one. The SciTech Strategy has been patiently adding to the more cyclical segments within the information technology sector (semiconductors and computer hardware) to better participate in a recovery rally. The timing of the recovery will be difficult to determine, but if history is a guide, the info tech sector will likely lead the stock market when the recession inevitably comes to an end.

Small Cap Composite

The Small Cap Value Composite returned 18.26% for Q2, versus +18.00% for the Russell 2000 Value index.

Overall, seven of the Composite's ten economic sectors contributed positively to performance. While three sectors had a negative contribution, only two were significant (Information Technology and Consumer Discretionary). One of the top contributing holdings during the quarter was American Dairy (ADY, +132%). ADY, a Utah-registered company, is a premium producer of infant formula in China. In September 2008, it was discovered that much of China's raw milk powder was contaminated with melamine, a toxic chemical that caused 6 infant deaths and sickened thousands. Over 25 dairy companies were implicated in the melamine crisis. American Dairy was one of a few companies not implicated and thanks to retailers replacing the tainted brands, American Dairy reported a significant boost in market share and first quarter results that far exceeded expectations. Another top performing holding during the quarter was laundry facilities manager Mac-Gray Corp. (TUC,+150%). Mac-Gray reported first quarter results that demonstrated the strategic benefits of the company's $116 MM acquisition of regional competitor ALC (which closed in April 2008). Two additional top contributors during the quarter were Industrias Bachoco (IBA, +90%) and Brink's Home Security Holdings Inc. (CFL, +25%). Industrias Bachoco, Mexico's largest chicken producer, reported a 24% sales increase during the quarter, driven primarily by higher pricing in chicken and eggs. Brink's Home Security (which is now known as Broadview Security, but will retain its symbol CFL) is the second largest home security provider in North America.

American Dairy • (ADY) 4.1.09 - 6.30.09

Only three sectors had a negative effect on relative performance during the quarter (Information Technology, Consumer Discretionary, and Materials). Negative contributors to performance during the period included California-based water utility SJW Corp. (SJW, -10%) and apparel manufacturer Hampshire Group (HAMP, -53%). SJW experienced lower profitability in 1Q09 as declining water usage caused a drag on revenues while drought conditions led to higher production costs. The company has a general rate case pending, with new rates scheduled to go into effect on January 1, 2010 to help offset recent margin pressure. In February 2009, Hampshire Group announced it had reached a deal to be acquired at $5.50/share by NAF Holdings, a holding company controlled by Efrem Gerszberg. In late April, the deal fell through as NAF was unable to finalize its financing arrangement and meet other closing conditions. As a result, its share price dropped dramatically. Hampshire, a designer and marketer of sweaters to U.S. department stores, announced a restructuring plan to right-size its operations to combat weakness in its end markets. The company is undergoing significant cost-cutting and will utilize the cash (over $6 per share) on its balance sheet to weather this downturn.

There are reasons to be bullish in our outlook for the second half of 2009. Massive amounts of stimulus are being applied to the global economy, the effects of which are only just beginning to be felt. Inventories are tight and credit markets are still improving. Interest rates remain historically low and second-half comparisons for most firms are relatively easy. But, it is difficult to become wildly bullish as the bears do have a compelling case, particularly longer-term. While business conditions are improving on a year-over-year comparison, results are pretty mediocre. The banking system is still in shambles and the process of consumer deleveraging is likely to last for many years. Perhaps most worrisome is the growing trend toward government intervention and the longer-term fallout from recent fiscal and monetary actions, including ballooning deficits, a weak dollar, and higher taxes. Given these headwinds, the typical drop in summer trading volume, and the spectacular gains of the past few months, we believe the market may simply lack a clear direction for the next couple of months before stabilizing and, hopefully, heading higher into year-end.

Tax Managed Strategy

The Tax Managed Strategy, which emphasizes purchasing shares of companies possessing enduring franchises and holding them for the long term, maintained its lead versus the S&P 500. Year to date, the Strategy has outperformed the S&P before dividends, (2.1% versus 1.8%) and for the trailing twelve months it's ahead -22.7% versus -26.2%. This outperformance has been driven by Apple Computer (AAPL), which rallied 35.5% in Q2 on better-than-expected sales of its iPhone smartphone. On a macro level, secular demand for the smartphone category has held up remarkably well despite slow overall consumer electronics sales. Moreover, iPhone continues to take market share from rivals Research in Motion (RIMM) and Nokia (NOK), based on its easy-to-use operating system and its vast library of popular applications. Going forward, as consumers increasingly choose to access the Internet via wireless devices, Apple's earnings growth should continue to outpace that of its peers. On the downside, Monsanto (MON) represented the Strategy's laggard. Its shares declined 10.2% in Q2, driven by a near-term slowdown in corn plantings due to abnormally rainy weather in the Midwest. As the weather improves, Monsanto's top line should re-accelerate as we head into the second half of the year. More importantly, because of its resistance to pests and disease, Monsanto's genetically-engineered seed corn has significantly boosted crop yields, driving demand. Because this dynamic does not depend on trends in the weather, we will maintain or add to our Monsanto position as a long-term, core holding.

Multi Cap Composite

Total net return for the Multi Cap Composite was 21.69% for the second quarter versus the S&P 500 return of 15.93%.

On Wednesday, July 22nd, Boeing (BA) reported its quarterly earnings. However, most of investors' and analysts' attention was focused on the company's comments surrounding the new 787 Dreamliner's production schedule. Despite the fact that the 787 program has been beset by delays, most analysts still view the plane as an industry "game changer". Not only does the Dreamliner employ innovations in production and manufacturing, but is also far superior to existing planes with regard to fuel consumption. We remain bullish on BA as we believe that the company's long-term prospects trump any short-term weakness caused by scheduling issues.

Another company that recently reported strong operating results is Apple (AAPL). We have been bullish on AAPL for some time now based on the company's excellent product innovation and positioning. The Apple iPhone continues to sell extremely well, as does the company's line of Mac computers. Additionally, we believe that the App Store – the online venue where users can go to download software applications either for free or at a nominal cost – will prove to be a significant competitive advantage over the long-term due to its ability to instill brand loyalty and aid customer retention.

Lastly, we would like to highlight Transocean (RIG). Transocean is a leader in ultra-deep water offshore drilling, operating rigs for large oil/gas companies around the world. As the demand for energy continues to increase, driven by emerging market growth coupled with the ever-expanding needs of developed countries, RIG will benefit as many of the necessary natural resources (crude oil and natural gas) are located in fairly inaccessible locations. RIG is one of the few global companies that can provide both the expertise and machinery necessary to access these resources.

Kentucky Municipals

Tax-Exempt bonds hit resistance in June as Treasury rates moved higher, but have not fully participated in the recent improvement. Valuations are once again attractive to historical norms throughout the yield curve as we enter the seasonally strong months for municipals. Like the first quarter, overall returns were decent at 2% as longer maturities outperformed at over 4%. As managers, we found ourselves buying opportunistically longer than normal late last year.

New bond issuance by Kentucky municipalities came in a substantial $1,160 million with 67 issues. New issue size averaged a healthy $17.6 million. The recent stimulus package created taxable "Build American Bonds" (BAB's), which are 35% federally subsidized as an alternative to tax-free payments . BAB issuance accounted for $309 million or 27% of the above total. As proponents of taxable municipals, we welcome the increased supply. The stimulus plan also modified bank-qualified (BQ) rules including increasing limits to $30 million from $10 million. This reduction in tax-exempt supply, strong fund flows and increased bank demand has provided tremendous support which should continue for some time. In general, BQ bonds yield less, but this varies depending on maturity. Banks tend to purchase longer-dated municipals, so those carry the biggest yield disadvantage. Basically this means we need to be more selective as we participate in new issues.

During the quarter, our 10-year KY tax-exempt yield target fell 0.05% to 3.85% from 3.9%. This compares to 4.15% a year ago. 4.0% seems to be a strong central tendency for the 10-year rate. Our 15-year yield target fell 0.2% to 4.5% from 4.7%. This compares to 4.55% a year ago and is also in line with longer-term averages. While not at the extreme ratios of last year, municipal yields remain compelling vs. Treasuries and we are comfortable reinvesting in this range. Valuations along with the steep yield curve should provide support for longer-term maturities when rates begin to rise.