



Baltimore Capital Management

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SAMPLE LETTER 3rd Q 2005

Dear «CLIENT»

Year to date, «#1 in letter» «PEF1». This compares to Dow Jones average being unchanged, the S&P 500 being up 3% and the NASDAQ being down 1%.

During the last few weeks, we have adopted a more positive view toward the market and reduced our cash position. At the moment we are not lacking good investment ideas. Large company stocks are cheap and quality names are abundant. This is the result of two trends converging. The longer trend has been smaller companies outperforming larger ones for several years. The shorter trend has been the very strong recent performance of energy stocks. The S&P 500 is actually down double digits year to date if one takes out the energy sector. In other words, there has been a correction of over 10% in the market if one omits energy.

Other reasons for our bullish stance include the fact that almost all world markets have outperformed the US market this year. Even though our market has underperformed, both the market and our economy have proved resilient. The market had to contend with exceptionally high oil prices, two large hurricanes devastating the Gulf Coast, and multiple interest rate increases.

So far this year we have had several stocks working well, including names like Tiffany, D.R. Horton and just about anything related to energy. Our small bets on China and gold have also shown good results. Looking forward, we expect names like Anheuser Bush, Paccar Industries and Harley Davidson to contribute to positive returns in the future. Among smaller names we have established a position in Werner, considered by many to be the country's best trucking company, with a solid balance sheet and no debt. We should point out that these are all quality names that are depressed for what appear to be short-term reasons.

It may be that our expectations for the fourth quarter are optimistic, but traditionally September and October have been weak months followed by some very strong ones at year-end. We certainly hope that the usual pattern will prevail, and as discussed above, there are multiple reasons why the market may rally.

Please feel free to call us about your account if you have any questions.



Just a reminder that our offices have moved and our new address is on our stationery. Please feel welcome to visit us!

Sincerely,

Alec Graham

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Upon written request, we will deliver a copy of our Part II of the Form ADV and an audited balance sheet.

«EXTRA Message»