



Baltimore Capital Management

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Dear Client,

In 2005 your account has had a gain/loss of xx%. This compares to the S&P 500 gain of 5 %, the Dow Jones gain of 2% and the NASDAQ gain of 2% for the year.

This was an average, rather than an exciting, year. It also was a year when the US market underperformed almost all world markets, even though the US economy was in very good shape and equity valuations were reasonable. It also was a year when very large capitalization companies continued to lag the market.

The US market may have been influenced by higher energy prices and increasing interest rates. With relation to oil prices, it should be noted that the rest of the world also saw increased oil prices and that in most of the world consumers pay substantially more for oil than we do, due to higher taxes. It may be that rising interest rates hurt the US market, but most economists now think that those increases are behind us. In any case, US stocks did outperform bonds, which have been hurt by the same rising interest rates. One of the best performing assets was gold, with an increase in value of 18%.

For 2006, we hope and expect to see the US market perform better and close the gap that has been created between its performance and that of the other world markets. At Baltimore Capital Management, we intend to continue buying quality names that preferably pay growing dividends. There are a number of these names trading at a discount, since in many cases they include the very large capitalization companies that have lagged the market for several years.

During the holidays I have read what I think is one of the most interesting investment books written in a long time: "The Future For Investors" by Jeremy Siegel, a well-regarded economist and professor at the Wharton School. The book is subtitled "Why the tried and true triumph over the bold and new." Its themes coincide so much with my own thinking that this quarter's newsletter is a book review of sorts. The book is an easy read, but if you don't have the time the enclosed newsletter highlights some of the themes and how they coincide with my views on investing.

I want to thank you for your support this year and welcome any comments or questions you may have. Our firm has grown its assets under management in every year it has existed, in no small part due to our client's referrals and the new funds they have added to their accounts. We do not employ marketing people, and our business has truly grown by word of mouth.

Sincerely and with much appreciation,

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.