



## Baltimore Capital Management

575 S Charles Street, STE 506

Baltimore, MD 21201

Phone: 410-727-4480

Fax: 410-783-7917

E-mail: [agraham@baltimorecapital.com](mailto:agraham@baltimorecapital.com)

[www.baltimorecapital.com](http://www.baltimorecapital.com)

April 4, 2006

Client address

Dear Client,

For the first quarter . This compares to a gain of 4% for the S&P 500, a gain of 4% for the Dow Jones and a gain of 6% for the NASDAQ.

While the year is off to a good start, I am optimistic that the markets will actually end the year even higher. Needless to say, as always, there may be bumps on the way. As conservative as I usually am, I currently find myself in the odd position of being rather bullish about the markets. There are several reasons. One is that the US market has lagged the rest of the world for too long, and I believe that status is changing. Also, most investors seem to be somewhere between cautious and negative about the market, and in my experience the consensus is usually wrong.

Another reason for being optimistic is a theory I have that real estate and the stock markets are counter-cyclical. At the moment, real estate prices have topped out or started to decline, depending on the specific region one considers. A few years ago when tech stocks were hot (from 1995 to 2000), all investors wanted was more tech stocks and more exposure to the market. When tech stocks collapsed and the market went flat (2000 to 2005), real estate became all the rage. I think all the day traders of the late 1990's became real estate brokers in 2000!

The February 23<sup>rd</sup> Wall Street journal had an interesting article about how investor's cash flows are moving, which seems to support my theory. According to the article, "[r]etail investors are being drawn to stocks partly because of weakening returns from some other investments such as real estate and bonds."

Interestingly, private equity investing is also a current rage. I think private equity investment funds will find the stock market an easy place to deploy the vast assets they have raised. This will fuel buyouts of public companies, and should contribute to further market upside.

In our newsletter, we refer to various new investment products that we find very interesting and are using or may use in the future. Over the years, I have sometimes heard people say they don't

want to put more money in the market. What they don't realize is that the exchanges have become a conduit for so much more than just equities. They now provide multiple ways to invest in real estate, commodities and fixed income. Our mission at Baltimore Capital Management goes beyond just investing in stocks, and focuses on the broader goals of making our clients money and limiting losses by controlling risk.

You will note that your enclosed statement has a new cover page. It is a good summary of your largest holdings, sector exposure, asset allocation and performance. We think it will be helpful, but welcome your comments.

Sincerely

Alec Graham

**Baltimore Capital MGT**

575 S Charles ST, STE 506  
Baltimore, MD 21201

Phone: 410-727-4480

Fax: 410-783-7917

[agraham@baltimorecapital.com](mailto:agraham@baltimorecapital.com)

[www.baltimorecapital.com](http://www.baltimorecapital.com)

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