



Baltimore Capital Management

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Client address

Dear Client,

Through the end of the third quarter your account has had a gain of x%. This compares to the S&P 500 gain of 8%, the Dow Jones gain of 11% and the NASDAQ gain of 3%.

In the last few days of the third quarter the Dow touched a new all-time high on an inter day basis, while the NASDAQ remained well below its prior high. If this coming fourth quarter follows the same largely positive pattern of the prior few years, it will not have been a bad year for the US market. Interestingly, the markets have rallied, as they often do, "by climbing a wall of worry," despite the disinterest of individual investors and negative attitude of many professionals. I continue to believe that individual investors will become interested in the market, especially as they realize that at best, real estate will stop appreciating in the near term. In fact, real estate could easily decline in value, although I do not expect any decline to be of such magnitude as to hurt the economy.

Sector rotation in the market has been fast and furious. This may be because of the proliferation of fast hedge fund money or investors reacting to changing economic news in a time when news and data travel much faster than previously. This sector rotation is allowing us to buy attractive stocks within depressed sectors. Our strategy over the past few months has been to identify depressed sectors and then find quality companies within those sectors that are attractively priced.

A good example of the sector rotation has been the energy sector, which has gone from being overly popular with oil at its highs, to having stocks down 20% or more with the recent drop in the price of oil. I would suggest that at least for this sector, a longer-term view might make the most sense. With today's geopolitical situation, it is hard to envision the price of oil being static or not having frequent upward spikes in price. In my view, declining world reserves and the booming economies of India and China that will consume ever more fuel in the future will prevent any substantial declines in price.

While the US market has rallied, it still lags behind many other world markets and is not expensive. We remain positive, but try to hedge our bet by owning some commodities through oil stocks and gold. This along with a bit of cash seems like a prudent approach.

Sincerely,

Alec Graham

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