



Baltimore Capital Management

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Dear Client,

For 2006 your account has had a gain of xx. This compares to the S&P 500 gain of 16%, the Dow Jones gain of 19%, and the NASDAQ gain of 10%.

While all in all it was a good year and even better than we expected, it was not without some volatility, including the 8% decline in May. The markets move up was warranted by reasonable valuations at the start of the year, and by the surge in private equity funds buying publicly-traded companies.

Over the past few years, extraordinary amounts of money have been invested into private equity funds. In 2006 those funds spent \$650 billion buying public companies. As of year-end, the funds still hold \$750 billion in cash that needs to be invested. This amount will be leveraged, making the amounts available for buyouts in the public market even greater. How the investors in those funds will fare will be determined over the next few years, but what is certain is that in the history of investing, when one asset class become too popular it ends up becoming a poor performer.

From our perspective, the private equity phenomenon is a positive for investors, like those of us at Baltimore Capital Management, that focus on public companies. For months, we have at least tried to be aware of public companies that could be bought out. Our normal focus on companies with low debt levels often leads us to the very companies the private equity funds want to own. Given the choice of being a buyer or seller in a frenzied market, we will always choose to be the seller. By owning the right public companies that could be bought out by the private equity funds, we are in that power alley.

While we are not negative about 2007 and think it will be a positive year, we exited 2006 assuming a conservative stance with our portfolios. The duration of the uninterrupted upward move in equity markets leaves us thinking that there may be a better buying opportunity in the next few months. If 2007 plays out like 2006 and so many other years, there will be a correction of 10% during the year and we will be active buyers. For the moment, we will continue to shop among sectors or securities that have not participated in the recent upswing, or, more importantly, are undervalued.

We continue to focus on preserving and growing our clients' wealth. If that means being cautious at times, then that's what we will be.

Thank you for your support in 2006.

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.