



Baltimore Capital Management

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April 2, 2007

For the first quarter of 2007 your account had a gain/loss of x%. This compares to the S&P 500 gain of, the Dow's gain of and the NASDAQ of x%

During the quarter the market had a small correction of 6% for a few days, mostly precipitated by a 10% decline in the stock market in China. In our view, the decline was not deep or long enough to merit using our cash reserves. The nature of the decline, combined with the fact that the market has already recovered almost all of the loss, leaves us wondering when we will get another downward move. This is not to say that we are negative about this year, but we do believe that after the upward move in 2006 a normal correction of 10% is in order. Interestingly, the Chinese market has also recovered completely and remains quite overvalued. Not unlike the internet bubble in this country, the Chinese public is speculating with overvalued stocks.

In the US market, the most recent fear has been the unraveling of the subprime mortgage market. It appears that loans have been made to speculative buyers of homes without the usual prudent step of first examining the borrowers' finances. When indiscriminate selling becomes pervasive in a particular sector of the stock market, as is now occurring with mortgage banks, we often will look for companies in that sector that not only will survive, but may even prosper from the fallout. An example is Countrywide Credit, the largest mortgage bank in the US. Countrywide has experienced a decline from \$45 to \$35, yet only 13% of its business is in the subprime market. This is a stock that we know well, and on which we have earned good returns over the years. It is now undervalued, trading with a single digit price earnings ratio. We are confident that Countrywide will not only survive, but benefit and prosper from the current market disruption.

While it is very difficult to predict interest rates, it is our guess that they are more likely to decline than increase in the future. Not only would that help the subprime market, but it would also help the housing market. Our economy can ill-afford a complete unraveling of the housing market, which impacts so many aspects of the economy. Of course, lower interest rates will contribute to a weaker dollar. This leads us to continue increasing our exposure to foreign equities and to gold. During the quarter, for those clients without gold exposure we have been buyers of Newmont Mining, one of the world's largest producers of the yellow metal.

At the start of 2007, Baltimore Capital Management had the good fortune of hiring Sean Greely, a young but very experienced Certified Financial Analyst (CFA). Sean will be helping us on the

research side and in picking stocks for our accounts. We hope that over the balance of this year you have a chance to meet Sean.

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.