



Baltimore Capital Management

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Dear Client

For the year 2007 your account has had a gain/loss of xxx.

We are somewhat disappointed in our investment results and can only describe 2007 as challenging to our investment strategy and our holdings. Not only were we exposed to the homebuilding industry more than we would like (in hindsight), but we also had exposure to financial companies. Both of these sectors were poor performers in 2007.

In the case of the homebuilding industry, it will come back with time and we expect the stocks will be strong performers. At least in terms of the stocks they appear to have bottomed and in new accounts we are buyers.

In the case of the financial companies, much of our exposure is through regional banks and insurance companies. Neither of these industries have exposure, of any significance, to the much publicized subprime issue. While we are watching the financial sector closely we note that regional banks and other financial companies are at historically low valuations. In this type of environment buying quality regional banks with high dividend yields strikes us as a good investment. Over the years regional and community banks have been a rewarding sector for us. I think 2008 will be a strong year for financial stocks and we will be well rewarded for adding to these holdings.

What we regret most about 2007, and can easily fix going forward, is not having more foreign equity exposure. While we have always invested internationally, the percentage of our investments in foreign securities has been lower than ideal this year. Although the dollar has already sustained losses against foreign currencies, we are positive on some foreign markets. Going forward we will have greater exposure to foreign markets, including emerging markets, where we believe the greatest long term opportunities exist.

Over the past few months we have reduced our cash holdings and taken advantage of sector and market declines as they have presented themselves. The volatility of late has lent itself to careful buying. In today's current environment we are bullish and do not find the US market overvalued. While China and a few other emerging markets are overvalued, markets like Japan, Korea, Mexico and Ireland are all very attractive.

As we leave a difficult year behind us we want to thank you for your patience and let you know that I too own many of the same names and expect 2008 to be a good year for these investments.

Should you have any questions please do not hesitate to call us or email me at agraham@baltimorecapital.com

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.