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SAMPLe

Dear CLIENT

For the first half of this year your account has had a gain/ loss of xxxx. During the same period the S&P 500 declined 12%. Markets in Europe and Asia have had substantially worse performance.

In our last quarterly letter we expressed some optimism that we may have completed a correction process. Following that letter, the S&P actually increased by 10% before starting a drop in May that was followed by a 7% decline in June, making for the worst month for the S&P since 2002. Additionally, the just-completed quarter is the third quarterly decline in the S&P.

As we begin the third quarter, many are saying we are starting a bear market. I would again argue that we have been in a bear market since October. It is also clear to most now that we are in a recession, although the statistical definition of two quarterly declines in economic growth has not occurred. A recent Ned Davis Research report pointed out that in the post-war period, recessions have lasted a median of 11 months and the stock market has typically started to rally half-way through that period. Assuming this pattern holds true and depending on when the current recession started, at some point in the not-too-distant future the market should start to anticipate an economic recovery.

Like any other investor, I hate losing money--even more so when it is our clients' money as well as my own. The question is what is the best strategy going forward? Clearly, selling into an oversold market makes little sense. Being a buyer, while possibly early, is more logical than being a seller of equities at this time.

Our cautious buying has been limited to high-quality names, preferably with solid dividends. For example, we have bought GE which now has a 5% dividend yield. We are confident the dividend will be paid and may continue to grow over the years. A 5% yield makes GE comparable or better than most corporate bonds. As we pointed out in our last letter, we are buying names that Warren Buffett has bought in the past two years for less than he paid. These names include Kraft foods, yielding 4%. We like the company's high-quality balance sheet and excellent product lineup.

While this has been a tough market, especially for financial stocks, we have had some success in the last few months. Notably Anheuser Bush, one of our largest holdings, is being pursued as a takeover by a large European brewer. As the stock has rallied to near the takeover price, we have trimmed the holding. There is some risk that the transaction may not be completed, especially since the company has decided to fight the takeover. We have also benefited from the excellent performance of Nabors Industries. This oil drilling company has almost doubled in price this year. The stock is well-positioned and beginning to reflect its very promising future.

Fortunately, we have had some exposure to gold as a hedge and even recently have been buyers below $900 an ounce. Our logic is that gold will continue to go up if the US dollar keeps falling. Additionally, if events in the Middle East heat up we could see a spike in gold back over the $1000 an ounce level.

As for the rest of this year, in my view it depends largely on the price of oil. As noted in the enclosed newsletter, oil at $140 a barrel is negative for the world's economy and stock markets in general. While it may spike even higher in the short term based on Middle Eastern news, if I had to make a prediction it would be that decreased demand in a slowing world economy will ultimately reduce the price to a level closer to $100. While we may never again see cheap oil, the 100%-plus increase in the last year seems overdone, driven by speculators, and unsustainable.

In conclusion, while this has not been a pleasant year for any of us, history has shown that bear markets are shorter in duration than bull markets, often last less than a year, and are invariably followed by bull markets. This is a time when many question their investment strategy and wish they had more cash or bonds, but it is also a useful time to remind ourselves that equities have always outperformed both of those types of assets over a long period.

We thank you for your patience and would be delighted to talk about your account at your convenience.

Sincerely,

Alec Graham

- If you wish to receive all your statements from BCM via email in the future, please notify us either by phone 410-727-4480 or via email: sandrarossner@baltimorecapital.com

- Secondly, if your account(s) is (are) custodied with Fidelity and you to wish do decrease the amount of annual reports and statements you receive in the mail, you have the option to receive these electronically. We will enclose instructions to go online and you can proceed at your convenience. If you have any questions please feel free to call.

- If your account is custodied with Deutsche Bank or Schwab please contact us about online access.

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