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SAMPLE CLIENT LETTER

Dear CLIENT

Year to date, the Gibson Island Country School account has had a gain/loss of xxxx. This compares to a decline in the S&P 500 of 19%. Incredibly, the US market has been the best in the world this year. Foreign and emerging markets have done far worse.

In my last letter I suggested that oil prices would drop and they have, by about 30%. What I did not predict or expect was a complete freeze of world credit markets and a general deterioration in the world financial picture. I also never expected Fannie Mae and Freddie Mac to be taken over by the US government, although I have been suspicious of these companies for years, never really understanding who they worked for. It is clear now that it was not for the shareholders. If that was not enough, we have witnessed the bankruptcy of Lehman Brothers and the government bailout of AIG, the world's largest insurance company. This has been followed by the collapse of Washington Mutual and Wachovia Bank, two of the largest banks in the country. Lastly, the epidemic is spreading to Europe, where governments are also being forced to take over or bail out financial institutions.

The good news, and there is not much of it, is that Henry Paulson and Federal Reserve Chairman Ben Bernanke are experienced experts who are very qualified to lead us out of this. Henry Paulson is the former Chair of Goldman Sachs while Ben Bernanke is a highly regarded economist and authority on the great depression. In my view, they are doing an excellent job with a very difficult situation.

So who do we blame for this mess? Well, there is plenty of blame to go around. In my view, Alan Greenspan, former Chair of the Federal Reserve, kept interest rates at absurdly low levels from 2001 to 2005. This not only coincided with a historic drop in the value of the dollar, but enabled real estate buyers to borrow at rates that were unreasonably low. Another good place to put some blame is with Christopher Cox, head of the Securities and Exchange Commission (SEC). Mr. Cox failed to enforce trading rules already on the books. Specifically, he failed to enforce the rule that to short a stock you had to first borrow it from someone. This led to the growth in what is called naked short selling, which in theory allows one to short more shares than actually exist of a company. Such practice may have contributed to the demise of several of the companies mentioned above. In addition to naked shorting, a further problem was the elimination of the uptick rule. In the past you could only short a stock if it traded at a price higher than the previous sale price for the same security. Dropping this rule allowed hedge funds to team up and create a waterfall of sell orders through electronic trading. In many cases, the practice effectively made stock price declines a self-fulfilling prophecy.

It's fairly easy to look back and find fault. The important question, of course, is what to do now from an

investment standpoint. There is no question that the world economy and investment climate have taken a turn for the worse in the last week. In spite of that, in most of our accounts we are about 90% invested. Our clients certainly have a right to ask why and the simple answer is that we may be near the bottom of a bear market by most traditional measures. Nevertheless, please do not assume that our thinking has not changed. It has! We are very concerned about the lack of political leadership in the USA. Not only have we become a debtor nation, but we are being buried by partisan politics in a time of crisis when you would expect politicians to rise above politics and put the country first.

Going forward, we will continue to increase our exposure to gold as a safe haven. We also are more inclined to have a higher percentage of our holdings in foreign names. Nations such as China and Brazil are the countries of the future and their stock markets have declined far more than ours, making them attractive investment prospects. In the US market, we are trying to focus on the highest quality dividend-paying companies we can find. Many of these are companies that Warren Buffett has invested in recently.

Some of you may have gotten an email update we sent a week ago. With things moving as fast as they are, we are inclined to use this medium more in the future. If you have not received this email please provide us with your email address.

While you receive a monthly statement from your custodian bank and a quarterly one from Baltimore Capital Management, for those that are interested we can email our quarterly report to you and send a hard copy of the year-end report. This will not only save some trees, but get the reports to you more quickly. In order to do this, you need to sign and return the form enclosed with this letter. If you prefer to continue to receive a quarterly paper report, there is no need to take further action.

In conclusion, we all need to remember that there have been times like this before and that in most cases they are followed by very impressive stock market recoveries. Also note that we are not just investing in the stock market-witness our exposure to gold.

Thank you for your patience in these trying times.

Sincerely,

Alec Graham

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- 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

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