



Baltimore Capital Management

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SAMPLE CLIENT LETTER

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Dear Client

Year to date, your account has had a gain of xx%. This compares to the S&P 500 gain of 19% and the Dow Jones gain of 13%.

The third quarter continued the positive returns we have seen since March, with the markets having recovered 50% from their lows. At the start of September many were predicting a down month and a possible market correction. While September has historically been a difficult month, the market as usual did not accommodate the prevailing view. A correction may be overdue after the recovery we have had, but it is helpful to recognize that we are still 40% below the market highs of October 2007. Looking at the market's valuation based on earnings for the next twelve months, the price earnings ratio is 14.7 versus an average of 14.9 going back to 1984. It is hard to make a case that the market is overvalued. The surprise may be that the economic recovery will be stronger than projected. That may very well be what the market is telling us with its current strength.

In the interest of being conservative, we have raised our cash levels to 15-20%. Your account may vary from this if funds have been recently withdrawn. While the cash may be a drag on performance if the market keeps rising, it also will be useful if we do get the long-anticipated correction. Two further thoughts may be in order on this subject. One is that after the market volatility we have seen in the last 13 months, there are still many attractive investments. The other is that as we approach year-end, many investors who have been underinvested and missed the rally will be buyers of equities, as they try to catch up on performance.

Having been in the investment business for 30 years does not mean I am not still learning or relearning. The past year has confirmed my belief that selling into a declining market does not pay, but holding one's course or investing available cash does. In spite of a horrible market over the last year, we did hold our course and it paid off. It has also confirmed the somewhat counter-intuitive principle that while buying high-quality names at the market depths is rewarding, sometimes an even better strategy is to buy lower-quality names that have been beaten down even more than the quality ones. This has been evident this year, when one sees how the S&P 500 has outperformed the Dow, which traditionally holds high-quality names. We have had to balance this principle against our commitment to an investment strategy that is mostly focused on quality and dividend-paying stocks.

There are a few things that we do worry about. One is the likelihood that in the next few months either the USA or Israel will attack Iran to keep it from finally developing nuclear weapons. Should this occur, it will probably cause a short-term drop in the market and an increase in the price of oil. Another concern

involves national politics, which is always dangerous territory for comment, but I have to say that we are very concerned with an administration in Washington that seems unfriendly to business. Our best chances to come out of this historically deep recession are through job creation, and in the end business has to create those jobs. Another worry is the weakness in the US dollar, attributable to our huge government deficits. While government spending may be needed to help us with the economic recovery, ultimately such spending will have to be reduced or the dollar will continue its decline.

In summary, we are optimistic about the market and economic recovery, yet we have our eyes wide open to the possibility of a market correction or global events beyond our control that may impact the market.

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.