



## Baltimore Capital Management

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July 8, 2010

Dear Client,

For the first half of 2010, your account has had a gain/loss of x%. This compares to the S&P 500 Total Return Index (S&P) decline of 7% and to the Morgan Stanley World Index decline of 10%.

We have outperformed world markets by holding cash at 15-20% of our holdings, and by having about 10% of our holdings in gold. So in general, 25% of our holdings have nothing to do with the stock market. Our focus on dividends and quality has also helped our performance. New investments have been limited to conservative investments, such as an exchange-traded fund yielding 6%, which holds utilities like natural gas transmission pipelines. I mention this specific investment to exemplify that we are focused on much more than what is considered traditional equity (stock) investing. Please note that it's possible you are not yet invested in the fund mentioned, if your account did not have over 15% cash during the quarter.

The second quarter of this year has been difficult for markets around the world, with foreign markets doing much worse than the US market. That can be seen in the Morgan Stanley World Index, which we now are including as a benchmark.

The government debt crisis in Greece and the fear of contagion to other parts of Europe have been a focus of investor attention. While this news is disturbing to financial markets, in reality there is less of a problem in Europe's largest economies, and several European countries are at least addressing the issues by cutting back on public employee benefits and spending, and by raising retirement ages. Of concern, to us, is that the USA has very similar problems, like explosive government debt at a national level and few states on solid footing financially, yet we are not addressing these issues effectively. States like California and Illinois have underfunded pension liabilities that may be impossible to fulfill. Unionized public employees have been able to negotiate benefits that the states cannot afford even in a strong economy. With tax collections down due to the recession, the problem is only magnified.

The economy would look better if employment improved, but that is simply not happening. For the moment, businesses are reluctant to hire due to the high level of uncertainty in Washington. For example, although the new health care reform is advertised as a cost saving, most business

people are convinced that the reform will end up costing them more, not less. All the uncertainty is increasing the talk of a double-dip recession. While this is unlikely and has only happened once before, it is within the realm of possibilities.

At times like the present, it is important to keep some perspective and not become overly negative. For starters, all the issues mentioned above have created opportunities. A simple example is that when equities are down, dividend yields are higher. We have no difficulty in finding high-quality companies yielding 3-5% with good enough balance sheets to raise their dividends. Investors that are frozen in their thinking and holding cash yielding 0% and bonds yielding under 3% are missing out on the opportunity to make a transition to equities. As I have pointed out before, bonds will produce losses as soon as interest rates go up, and they will go up.

In summary we think we are well-positioned and do not anticipate making any major changes. Our holdings are producing a solid income stream and are of sufficient quality to ride out what seems like a challenging time.

Sincerely,

Alec Graham

**Baltimore Capital MGT**

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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: [sandarossner@baltimorecapital.com](mailto:sandarossner@baltimorecapital.com)

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