

This email was sent to our clients on January 9th.

If you did not receive it and wish to receive any emails from us in the future please provide your email address to sandrarossner@baltimorecapital.com.

From: Alec Graham
Sent: Wednesday, January 09, 2008 9:29 AM
Subject:

After a difficult 2007 the stock market is off to a difficult start in 2008. While I have not received many calls from nervous clients I have gotten a few. Normally we hear very little from our clients. I think it may help if I put the stock market in context. At the moment we are down 11% from the markets high and having the third 10% correction in the past 52 weeks. While this many corrections in a year is unusual, it has been a challenging time for the market and our holdings. The question is what happens from here. In my view there are two possibilities. One is that we rally from this level like we did in the two other 10% corrections. The other is that the market drops another 4% to complete a 15% correction. At the 12,000 level the Dow has lots of technical support. Some ask if we are going into a recession. I would suggest that we already are in a recession and that is what the stock market has been discounting and predicting. Historically the market goes down before recessions and starts to climb well before a recession ends. History shows that bear markets are much shorter in duration than bull markets. It is also true that recessions are much shorter than growing economies. That would imply that much of the damage has been done and that there may be light at the end of the tunnel.

While I tend to be too conservative, in my 30 years in the business I have learned that being too negative is not the way to make money. This may be stating the obvious, but it is easy to forget that buying stocks when they are down is a better strategy than the opposite. That being the case I think it is important for investors to stay the course and be willing to buy at moments like these. It is impossible to pick the bottom and we are seeing many good buy ideas now. While I prefer to keep my personal finances private it may help for my clients to know that in my 401K retirement plan I have gone to a 95% invested position for the first time in years. I am doing this as a long term investor and because over time I am confident I will make money.

While some may be nervous about the market I can assure you from experience that it is those moments of nervousness that are in hindsight the best buying opportunities.

Thank you for your patience. With time it will be rewarded!

Alec Graham
Baltimore Capital Management, Inc.
575 South Charles St., Suite 506
Baltimore, MD 21201
P: 410-727-4480
F: 410-783-7917