

Asset Class Report		Total Return						Risk		Yield	Valuation	
		Q4	Q3	Q2	2005	3YR	5YR	1YR	3YR	12mo	P/E	P/B
EQUITY	Large Cap Growth	2.63	4.02	2.58	4.75	13.02	-3.85	10.25	9.92	0.86	23.14	4.32
	Large Cap Core	1.71	4.27	1.83	6.33	15.20	0.87	8.31	9.21	1.85	18.88	2.88
	Large Cap Value	0.94	3.95	1.68	6.64	17.21	4.98	7.96	9.85	2.36	15.94	2.14
	Mid Cap Growth	3.25	6.57	3.37	11.74	22.42		12.12	12.23	0.45	25.71	4.10
	Mid Cap Core	2.07	5.37	4.90	12.48	23.41		10.46	11.11	1.35	21.62	2.74
	Mid Cap Value	1.15	5.34	5.00	12.54	24.23		9.84	11.04	1.88	18.87	2.09
	Small Cap Growth	1.37	6.24	3.72	4.02	20.90	2.01	16.47	17.33	0.44	46.57	3.51
	Small Cap Core	0.88	4.54	4.54	4.46	22.07	8.08	15.19	15.98	1.25	39.38	2.44
	Small Cap Value	0.51	2.97	5.04	4.36	22.96	13.22	14.21	14.59	1.67	32.80	1.80
	Large Cap International	4.19	10.90	-1.07	13.32	23.49		10.22	12.18	1.78	18.01	2.33
Emerging Markets	5.12	18.55	5.92	32.62			19.64		1.03	12.94	2.76	
FIXED INCOME	Real Estate Investment Trusts	2.92	4.26	15.13	14.57	28.23		16.99	16.09	3.74	37.33	2.82
	Commodities	-4.10	16.38	-2.92	20.50	22.08		15.95	17.26			
	Precious Metals	10.45	7.51	1.45	17.76			13.09				
	Fund of Funds											
BONDS	Treasuries 1-3yr	0.66	-0.02	1.17	1.53	1.33		1.19	1.41	3.05		
	Treasuries 7-10yr	0.74	-1.98	4.90	2.64	2.95		5.50	6.96	3.89		
	Treasuries 20-30yr	1.37	-3.63	9.44	8.61	6.25		9.86	11.34	4.60		
	Treasury IPS (TIPs)	-0.02	0.06	2.90	2.59	6.25	8.54	4.09	6.55	5.61		
	Mortgage-Backed (MBS)	1.11	-0.02	2.13	3.33	3.31	5.48	2.29	3.16	4.65		
	Inv Grade Short Duration	0.78	0.24	1.55	2.20	2.83	4.35	1.25	1.70	3.61		
	Inv Grade Intermediate Duration	0.41	-0.83	3.31	1.97	4.32	6.49	3.62	4.77	4.76		
	Inv Grade Long Duration	0.86	-3.22	6.97	5.14	6.76	8.58	7.89	9.54	5.46		
	High Yield Intermediate Duration	1.30	0.61	2.59	2.77	9.33	6.47	4.24	4.21	7.08		
	Municipals Short Duration	0.40	0.13	1.24	1.11	1.80	3.46	1.07	1.75	3.06		
	Municipals Intermediate Duration	0.67	-0.32	2.61	2.24	3.30	4.56	2.61	3.85	4.11		
	Municipals Long Duration	0.83	-0.36	3.28	3.07	4.13	5.41	3.34	5.28	4.55		
	International	-2.23	-0.44	-2.50	-8.38	6.83	7.48	5.63	8.31	2.52		
Emerging Markets	3.03	4.81	7.36	17.28	19.27	15.24	6.46	7.85	7.08			
Floating-Rate	0.65	1.46	0.74	3.77	4.97		0.76	0.81	4.01			
☞ Money Market	0.95	0.81	0.68	3.01	1.67	2.16			2.97			
Balanced Portfolios		Q4	Q3	Q2	2005	3YR	5YR	1YR	3YR	Current	P/E	P/B
Vanguard 60/40		1.52	2.12	2.63	4.65	11.09	3.77	5.19	5.97	2.62	20.09	2.68
DFA 60/40		1.91	4.05	1.92	7.20			5.43		2.53		
DFA 25/75		1.04	1.62	1.84	3.99			2.36		3.07		
Market Indices		Q4	Q3	Q2	2005	3YR	5YR	1YR	3YR	Current	P/E	P/B
S&P 500		1.77	3.69	1.42	4.87	14.13	0.54	8.23	9.23	1.66	20.08	3.58
DJIA		1.76	3.46	-1.64	1.61	10.91	2.02	9.41	9.71	2.03	19.69	2.90
NASDAQ 100		2.41	7.29	0.67	1.34	18.77	-6.89	16.71	15.29	0.08		
US Domestic Bonds		0.51	-0.80	3.46	2.26			3.47		4.07		

Key

x.x asset class with highest monthly total return

x.x asset class with lowest monthly total return

Note: Asset Class returns are represented by selected mutual funds and ETFs with dividends reinvested. Returns for periods greater than 1 year are compound annual returns. Risk is annualized standard deviation of returns.

Market Observations
January 9, 2006

2005 offered investors another good example of the benefits of an asset-class diverse investment strategy. Typical balanced strategies like Vanguard's 60/40 produced a 4.65% return, while DFA's 60/40 fund generated an extra 2.55% with their portfolio "tilted" toward smaller cap and value stocks. This compares with +4.9% and +1.6% return for the popular large-cap S&P 500 and DJIA ETFs. Note that the balanced strategies earned their return with far less risk, as measured by the 1yr and 3yr standard deviation.

Portfolios with exposure to alternative asset classes such as REITs and commodities had significant positive impact on returns, in addition to their risk-diversifying benefits.

The only asset class to post a negative return for 2005 was International Fixed-Income. Although most investors expected the US Dollar to devalue during 2005, it confounded the experts by *strengthening*. Against the Euro, it took \$1.3554 to purchase a Euro on Dec 31, 2004. At the end of 2005 a Euro cost only \$1.1849 – the US Dollar actually appreciated 12.5%. Non-US Dollar exposure is an important portfolio diversifier and we will continue to include it in client portfolios, despite its negative impact in 2005. We will continue to have non-US Dollar exposure in both Equity and Fixed-Income investments, including the International Fixed Income asset class.

On several of the last few trading days of 2005, the US Treasury yield curve inverted for the first time since 2000. When short maturity bonds yield more than longer maturities, this generally portends an economic recession. Economists point out that "this time is different" since short rates are not unusually high -- long rates are abnormally low. As investors, the implication for our fixed-income allocation is to shorten maturities – the market is simply not paying us to take much interest-rate risk.

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Source: Bloomberg L.P.