



MARYLAND CAPITAL ADVISORS INC.
◇ Registered Investment Advisory ◇

2006 Fourth Quarter Asset Class Report

January 15, 2007

It was not hard to earn a positive return last year – only **COMMODITIES** (-3.04%) generated a loss. Passive investors with all of their equity investments in the S&P 500 were likely happy with their return (+15.94% ETF, +15.79% Index). In fact, according to Barron's, **passive S&P 500 stock portfolios beat approximately 70% of all US actively-managed funds**. An all-S&P 500 stock portfolio, however, is a concentrated investment in only **LARGE CAP CORE** stocks. Globally-diversified stock portfolios with measured exposure to academically-determined risk factors (Small vs. Large Companies, Growth- vs. Value- stocks) performed even better.

Constrained allocations to these riskier asset classes reduced portfolio concentration last year and significantly increased returns. DFA's diversified Global Equity Portfolio fund (DGEIX), for example, was +20.47%. **EMERGING MARKETS** (+31.2%) was the riskiest (see 1YR and 3YR RISK columns) and best-performing equity asset class. **LARGE CAP INTERNATIONAL** (+25.8%) and **SMALL CAP VALUE** (+23.5%) were the next-best equity classes. Risk dimensions SMALL and VALUE were the greatest contributors to stock portfolio returns in 2006 (see US EQUITY FACTORS, lower right). **Our client portfolios are globally-diverse, with "tilted" allocations toward VALUE and SMALL stocks. Years like 2006 remind us of the value that our periodic portfolio rebalancing has in managing risk.**

For bond investors willing to take risk, 2006 was a good year. **EMERGING MARKETS BONDS** (+11.4%) were the best performers, followed by **HIGH YIELD BONDS** (+8.2%). **Our client bond portfolios have only very modest allocations to these risks.** Why? Unlike other asset classes, bonds trade at prices that translate to yields. Bond yields allow an objective, mathematical computation of "risk premium" – the additional yield above credit risk-free US Treasury bonds. Risk premiums have simply declined to a point that 1yr US Treasury notes at 5.00% are more attractive and out-weigh the diversity benefits of riskier bond classes.

REITS was the overall top-performing asset class in 2006 (+38.5%) and had an incredible 5-year compound annual return of +24.6%. Despite a long-awaited decline in residential home prices, REITs (commercial real estate) have continued to perform well.

What has been driving the appetite for riskier asset classes? The most significant forces are: tremendous global currency reserves and leverage (borrowed money). Reserves of Asian exporters and oil-producing nations have undoubtedly been investing in equity markets around the world – the MSCI World index, an index of stocks from around the world, was +20.72% in 2006. Meanwhile, leveraged investing has advanced to a level of complexity and popularity that its ability to impact market prices is now substantial – and a bit scary.

Our discipline of global asset allocation better positions client portfolios to benefit from the long-term rewards of risky asset classes while maintaining a commitment to diversification.

[see attached Asset Class Report]

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Asset Class Report		Total Return						Risk		Yield	Valuation	
December 29, 2006		2006	06Q4	06Q3	06Q2	3YR	5YR	1YR	3YR	12mo	P/E	P/B
EQUITIES	Large Cap Growth	8.94	5.82	3.32	-3.84	6.62	2.19	7.57	8.86	0.93	21.79	4.08
	Large Cap Core	15.41	6.84	5.00	-1.84	10.86	6.46	5.86	7.44	1.57	18.10	2.89
	Large Cap Value	22.48	7.98	5.96	0.54	15.05	10.51	5.50	7.54	2.05	15.50	2.24
	Mid Cap Growth	10.51	6.91	0.75	-5.06	12.49	7.57	10.81	11.39	0.70	25.53	4.09
	Mid Cap Core	15.13	7.48	1.96	-2.72	15.75	12.47	8.73	9.69	1.31	21.73	2.83
	Mid Cap Value	20.00	8.29	3.44	-0.50	18.52	15.51	6.41	9.03	1.83	18.62	2.10
	Small Cap Growth	13.18	8.65	-1.42	-7.68	9.95	6.51	15.26	15.71	0.32	45.27	3.58
	Small Cap Core	18.27	8.83	0.70	-5.44	12.93	10.99	13.34	14.31	1.07	35.41	2.01
	Small Cap Value	23.48	9.12	2.41	-2.87	15.69	14.95	11.29	12.85	1.59	29.58	1.43
	Large Cap International	25.81	10.36	3.61	0.72	19.82	14.90	9.93	10.56	2.09		
Emerging Markets	31.19	19.64	3.06	-5.15	30.15		21.98	19.48	1.38			
ALTS	Real Estate Investment Trusts	38.52	10.34	10.35	-1.59	28.73	24.60	12.41	16.91	2.95	45.68	3.51
	Commodities	-3.04	2.45	-4.81	5.31	10.90		15.80	15.72			
	Precious Metals	22.55	6.29	-2.87	5.39			18.63		0.00		
	Hedge Fund of Funds Index	9.26	5.23	0.69	-0.66	4.86						
BONDS	Treasuries 1-3yr	3.89	0.93	1.90	0.63	2.08		0.75	1.32	4.14		
	Treasuries 7-10yr	2.52	0.63	4.64	-0.50	3.11		3.58	5.19	4.30		
	Treasuries 20-30yr	0.71	0.41	7.28	-1.79	5.79		8.21	8.82	4.61		
	Treasury IPS (TIPs)	0.39	-1.34	3.52	0.44	3.67	7.02	3.56	4.82	3.58		
	Mortgage-Backed (MBS)	4.33	1.50	3.63	-0.70	3.92	4.87	2.49	2.48	5.07		
	Inv Grade Short Duration	4.57	0.88	2.31	0.79	3.06	3.79	0.89	1.44	4.31		
	Inv Grade Intermediate Duration	3.98	1.06	4.20	-0.30	3.69	5.64	2.79	3.74	5.00		
	Inv Grade Long Duration	2.36	0.93	7.25	-1.88	5.46	7.43	7.11	7.42	5.62		
	High Yield Intermediate Duration	8.24	3.47	3.51	-0.52	6.48	7.65	2.30	3.51	7.02		
	Municipals Short Duration	3.03	0.47	1.79	0.54	1.97	3.05	0.88	1.42	3.24		
	Municipals Intermediate Duration	4.06	0.69	3.22	-0.01	3.26	4.46	2.08	2.95	4.17		
	Municipals Long Duration	4.76	0.85	3.91	-0.19	4.08	5.56	2.62	3.70	4.56		
	International	7.55	2.92	0.88	3.10	3.46	9.91	4.97	7.12	3.16		
Emerging Markets	11.44	4.93	6.43	-2.57	14.43	15.65	6.68	6.97	6.92			
Floating-Rate	6.37	1.94	1.92	0.69	4.81		0.80	0.74	5.54			
\$ Money Market	4.88	1.29	1.29	1.17	2.84	2.21			4.68			
Balanced Portfolio Funds		2006	06Q4	06Q3	06Q2	3YR	5YR	1YR	3YR	12mo	P/E	P/B
Vanguard 60/40		11.02	4.77	4.23	-1.27	8.29	6.52	4.22	5.05	2.81	18.22	2.65
DFA 60/40		13.88	5.88	2.84	-0.63			5.05		1.20		
DFA 25/75		8.02	3.02	2.06	0.29			2.06		0.90		
Market Index ETFs		2006	06Q4	06Q3	06Q2	3YR	5YR	1YR	3YR	12mo	P/E	P/B
S&P 500		15.94	6.70	5.35	-1.41	10.44	5.91	5.75	7.40	1.67	17.81	2.89
DJIA		18.91	7.26	4.99	0.94	8.22	6.43	5.23	8.23	2.04	21.52	3.34
NASDAQ 100		7.14	6.31	4.91	-7.47	6.37	1.70	13.70	14.56	0.31		
US Domestic Bonds		3.90	1.14	4.04	-0.51	3.29		2.69	3.36	4.71		
US Dollar Index		-8.25	-2.77	1.02	-5.09	-1.27	-6.45	7.14				

Source: Bloomberg L.P.

x.xx sub-asset class with highest period total return

x.xx sub-asset class with lowest period total return

Note: Asset Class returns are primarily investable benchmarks using 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.

Maryland Capital Advisors Inc. obtained the information from sources we believe to be reliable, but we do not guarantee its accuracy or completeness.

US Equity Factors				
	Growth	Core	Value	
Small Cap	+13.18	+18.27	+23.48	1 Y R
Mid Cap	+10.51	+15.13	+20.00	
Large Cap	+8.94	+15.41	+22.48	
	Growth	Core	Value	
Small Cap	+6.51	+10.99	+14.95	5 Y R
Mid Cap	+7.57	+12.47	+15.51	
Large Cap	+2.19	+6.46	+10.51	