



MARYLAND CAPITAL ADVISORS INC.
◇ Registered Investment Advisory ◇

2006 Second Quarter Asset Class Report

July 7, 2006

Market activity in the 2nd Quarter was dominated by changing perceptions of when and at what level the Federal Reserve might stop raising short-term interest rates. Since December 2005, the majority of so-called Fed-watchers have predicted that the “end is near” (meaning one more 0.25% rate hike and then stop). In early January, Bloomberg’s median forecast for the year-end Federal Funds rate was 4 ³/₄%. Now, of course, the current rate stands at 5 ¹/₄% and some analysts are predicting a 6% funds rate by year-end. The impact of this uncertainty has been a significant increase in market volatility. One measure of stock market volatility, an index called VIX, doubled from May 10th to June 13th – to its highest level in over three years.

In our June 14th “Investment Comment” we highlighted the asset class performance during these tumultuous 23 trading days. There was a stunning drop in riskier asset classes such as Small Cap (-13.5%) and Emerging Market (-25.4%) stocks. For investors trying to market-time or hoping that their actively-managed funds out-perform the market, these events can be exciting and frustrating – and often futile. Investors that employ passively-managed, global asset class-balanced strategies are not immune to losing money, but our portfolios benefit from the diverse, constrained exposure to the various risks. The lesson of the 2nd Quarter (and the 23-day equity market sell-off) is not to avoid risky assets – it’s to monitor and maintain modest allocations to those asset classes. In the language of portfolio theory, asset class-balanced portfolios benefit from their allocations to the risk dimensions of Value-Growth and Small Cap-Large Cap, while constraining overall stock market risk to a static allocation.

In the 2nd Quarter all equity asset classes declined, except Large Cap Value (+0.54%). Note that year-to-date and 1-year returns have been strong for equities, with the exception of Large Cap Growth (-0.36% YTD). *Portfolio allocations toward Value and Small Cap stocks have been important, positive contributors to YTD returns, despite the 2nd Quarter sell-off in Small Cap.* In the bond market, the worst-performing asset class YTD was long-maturity US Treasury bonds (-6.51%). *As previously described, client portfolios have avoided interest-rate risk by owning primarily short-maturity bonds this year – that may change as the risk of a recession grows.* The most important diversifying investments for our client portfolios in the 2nd Quarter were non-US dollar bonds (+2.8%) and commodities (+5.3%).

[see attached Asset Class Report]

Maryland Capital Advisors Inc. is an independent, referral-only, investment advisor registered in Maryland. We provide investment management and advisory services to high net-worth individuals, families, foundations, trusts, and other select clients. We work with each client to design, build, implement, and manage a tax-efficient, low-cost investment portfolio designed to match each client’s time-horizon, risk tolerance, liquidity needs, and cash flow.

Asset Class Report		Total Return						Risk		Yield	Valuation	
June 30, 2006		YTD	06Q2	06Q1	1YR	3YR	5YR	1YR	3YR	12mo	P/E	P/B
EQUITIES	Large Cap Growth	-0.36	-3.84	3.62	6.38	8.26	-1.08	8.67	8.90	0.96	19.95	3.83
	Large Cap Core	2.88	-1.84	4.81	9.12	11.89	2.93	7.58	7.80	1.75	16.90	2.70
	Large Cap Value	7.06	0.54	6.48	12.33	15.66	6.80	7.53	8.08	2.27	14.69	2.08
	Mid Cap Growth	2.59	-5.06	8.06	12.89	16.42		11.73	11.90	0.79	22.33	3.69
	Mid Cap Core	5.06	-2.72	8.00	12.99	19.55		9.85	10.10	1.43	19.85	2.60
	Mid Cap Value	7.13	-0.50	7.67	14.15	21.66		8.49	9.57	1.90	18.14	2.05
	Small Cap Growth	5.67	-7.68	14.47	13.80	16.28	3.28	16.67	16.64	0.35	38.27	3.21
	Small Cap Core	7.92	-5.44	14.12	13.81	18.58	8.28	15.25	15.06	1.02	34.64	2.32
	Small Cap Value	10.49	-2.87	13.76	14.35	20.97	12.78	13.85	13.56	1.50	31.59	1.81
	Large Cap International	10.03	0.72	9.24	27.13	23.73		11.03	10.78	1.70	17.45	2.42
Emerging Markets	6.40	-5.15	12.18	32.60	34.16		24.44	19.87	1.05	12.07	2.13	
ALTS	Real Estate Investment Trusts	13.77	-1.59	15.61	22.08	28.66	20.47	15.08	16.70	3.37	43.50	3.01
	Commodities	-0.57	5.31	-5.59	10.97	18.05		16.95	15.28			
	Precious Metals	18.71	5.39	12.64	40.95			15.81		0.00		
	Hedge Fund of Funds Index	3.12	-0.66	3.81	7.81	4.50						
BONDS	Treasuries 1-3yr	1.01	0.63	0.38	1.66	1.27		1.00	1.39	3.71		
	Treasuries 7-10yr	-2.64	-0.50	-2.15	-3.86	0.62		4.37	6.58	4.20		
	Treasuries 20-30yr	-6.51	-1.79	-4.80	-8.66	1.69		9.47	11.18	4.94		
	Treasury IPS (TIPs)	-1.71	0.44	-2.14	-1.67	3.56	6.84	4.21	5.80	5.66		
	Mortgage-Backed (MBS)	-1.24	-1.13	-0.12	-0.17	2.19	4.43	2.08	3.21	4.57		
	Inv Grade Short Duration	0.95	0.43	0.53	1.98	2.04	3.64	0.95	1.61	3.61		
	Inv Grade Intermediate Duration	-1.67	-0.73	-0.95	-2.09	1.72	5.24	3.06	4.49	4.61		
	Inv Grade Long Duration	-5.90	-2.36	-3.63	-8.15	1.79	6.50	7.76	9.33	5.41		
	High Yield Intermediate Duration	0.47	-1.10	1.59	2.40	5.91	6.16	2.21	3.83	6.63		
	Municipals Short Duration	0.48	0.26	0.22	1.00	1.30	2.82	0.87	1.66	2.89		
	Municipals Intermediate Duration	-0.23	-0.36	0.13	0.12	2.15	3.84	2.07	3.61	3.87		
	Municipals Long Duration	-0.42	-0.58	0.16	0.04	2.73	4.73	2.58	4.93	4.28		
	International	3.28	2.80	0.47	0.53	4.97	9.63	6.05	8.10	2.60		
	Emerging Markets	-0.85	-3.19	2.42	7.06	11.79	13.41	6.73	7.55	6.81		
Floating-Rate	1.86	0.19	1.67	4.02	4.25		0.70	0.74	4.38			
Money Market	1.83	0.77	1.05	3.62	2.11	2.01			3.56			
Balanced Portfolio Funds		YTD	06Q2	06Q1	1YR	3YR	5YR	1YR	3YR	12mo	P/E	P/B
Vanguard 60/40		1.67	-1.27	2.98	5.40	8.44	4.45	4.67	5.08	2.87	19.47	2.76
DFA 60/40		4.59	-0.63	5.25	10.90			5.54		2.12		
DFA 25/75		2.74	0.29	2.44	5.49			2.32		2.48		
Market Index ETFs		YTD	06Q2	06Q1	1YR	3YR	5YR	1YR	3YR	12mo	P/E	P/B
S&P 500		3.15	-1.41	4.63	8.85	11.20	2.46	7.48	7.71	1.62	16.83	2.74
DJIA		5.60	0.94	4.62	11.18	9.81	3.30	7.56	8.61	2.11	20.85	3.10
NASDAQ 100		-3.93	-7.47	3.83	5.81	9.51	-2.95	14.44	15.02	0.40		
US Domestic Bonds		-1.27	-0.51	-0.77	-1.56			2.83		4.52		
US Dollar Index		-6.59	-5.09	-1.58	-4.41	-3.49	-6.55	7.68				

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.

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