



MARYLAND CAPITAL ADVISORS INC.
◇ Registered Investment Advisory ◇

2006 First Quarter Asset Class Report

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The first quarter began with equity market performance that lived-up to the so-called January Effect. Although market pundits speak about this effect in Large Cap indices (DJIA, S&P 500), academics actually coined the phrase due to the historical out-performance of Small Cap stocks vs. Large Cap – and Small beat Large significantly for January and the quarter. Popular market indices (S&P 500, DJIA, etc) that represent primarily Large Cap stocks underperformed all other equity asset classes. In fact, note that some balanced strategies like DFA's 60/40 fund gained 5.25%, beating the all-equity Large Cap indices – with only a 60% exposure to stocks.

In alternative assets, gold rose 12.6% on heightened inflation fears and as an alternative to a declining US Dollar (-1.6%). The risk of a material decline in the exchange value of the US Dollar is real – *our client portfolios are significantly diversified into non-\$ equity and bond investments*. REITs returned +15.6% – the best quarterly return of ALL asset classes. Historically, REIT returns have been more correlated to equities than bonds, despite their “bond-like” cash flows.

Interest-rate risk weighed heavy on bond market returns, with the longest US Treasury bonds -4.8%. Shorter maturity US treasury bonds managed a slight +0.4% return. Our client bond investments had previously been re-allocated to shorter maturities, since longer maturity bonds offered no incremental yield for the additional risk. Since the yield curve remains “flat” (2yr and 10yr US Treasury notes each ended March at 4.82% and 4.85%, respectively), *we will continue to keep client bond investments in short maturities*.

The best performing bond asset class was Emerging Markets (EM). EM debt continued its recent incredible performance (+17.3% in 2005) with +1.80% for Q1. While this asset class clearly offers some diversification benefits, the valuation of EM debt provides an excellent example of markets that have priced-in complacency. On January 4th, for example, the Republic of Iraq issued a \$2.7 Billion non-rated bond maturing in 2028 (quoted around 9.25% at the end of March). Another example: Russia's 2018 bond ended the quarter at 5.94% – only 1.09% more than risk-free US treasury debt. *We currently have only modest allocations to the EM bond asset class in some client portfolios. In the context of portfolio design, does the expected return and risk of EM debt benefit client portfolios overall?* That is a topic for discussion during each client's quarterly portfolio review.

[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	
March 31, 2006		YTD	05Q4	2005	1YR	3YR	5YR	1YR	3YR	12mo	P/E	P/B
EQUITIES	Large Cap Growth	3.62	2.63	4.75	13.48	14.82	1.62	9.38	9.67	0.82	22.24	4.17
	Large Cap Core	4.81	1.71	6.33	13.20	18.26	4.73	7.83	8.86	1.56	18.72	2.89
	Large Cap Value	6.48	0.94	6.64	13.60	21.69	7.69	7.68	9.42	2.14	16.12	2.18
	Mid Cap Growth	8.06	3.25	11.74	22.91	25.26		12.51	12.31	0.51	25.48	4.17
	Mid Cap Core	8.00	2.07	12.48	21.85	27.56		10.36	10.85	1.25	22.08	2.83
	Mid Cap Value	7.67	1.15	12.54	20.46	28.80		9.32	10.60	1.79	19.65	2.15
	Small Cap Growth	14.47	1.37	4.02	27.85	28.17	8.16	17.66	17.52	0.34	45.80	2.36
	Small Cap Core	14.12	0.88	4.46	25.82	29.67	12.41	16.29	16.02	1.02	40.18	1.79
	Small Cap Value	13.76	0.51	4.36	23.67	30.39	15.98	15.10	14.47	1.46	35.54	1.42
	Large Cap International	9.24	4.19	13.32	24.87	30.99		10.64	11.68	1.71	17.94	2.50
Emerging Markets	12.18	5.12	32.62	48.07			22.64		1.00	14.34	2.97	
ALTS	Real Estate Investment Trusts	15.61	2.92	14.57	42.82	34.01	23.20	13.66	16.02	3.34	42.96	3.15
	Commodities	-5.59	-4.10	20.50	2.29	18.18		16.96	17.19			
	Precious Metals	12.64	10.45	17.76	35.68			14.78		0.00		
	Hedge Fund of Funds	4.03	-0.14	2.28	6.32	6.10						
BONDS	Treasuries 1-3yr	0.38	0.66	1.53	2.20	1.29		1.11	1.40	3.39		
	Treasuries 7-10yr	-2.15	0.74	2.64	1.36	1.85		5.30	6.86	4.01		
	Treasuries 20-30yr	-4.80	1.37	8.61	1.78	4.15		9.35	11.28	4.82		
	Treasury IPS (TIPs)	-2.14	-0.02	2.59	0.74	4.58	7.08	4.04	6.29	5.67		
	Mortgage-Backed (MBS)	-0.54	1.11	3.33	2.68	2.78	4.79	2.12	3.14	4.38		
	Inv Grade Short Duration	0.17	0.78	2.20	2.76	2.42	3.73	1.15	1.68	3.42		
	Inv Grade Intermediate Duration	-1.37	0.41	1.97	1.45	3.17	5.39	3.52	4.69	4.47		
	Inv Grade Long Duration	-4.09	0.86	5.14	0.13	4.60	6.88	7.62	9.50	5.20		
	High Yield Intermediate Duration	0.98	1.30	2.77	5.58	8.16	5.80	4.20	4.17	6.46		
	Municipals Short Duration	-0.06	0.40	1.11	1.71	1.57	2.96	0.98	1.72	2.84		
	Municipals Intermediate Duration	-0.23	0.67	2.24	2.73	3.02	4.00	2.52	3.77	3.81		
	Municipals Long Duration	-0.24	0.83	3.07	3.51	3.80	4.87	3.19	5.15	4.22		
	International	0.21	-2.23	-8.38	-4.90	5.63	8.57	6.01	8.34	2.59		
Emerging Markets	1.80	3.03	17.28	18.00	17.39	14.92	6.27	7.84	6.56			
Floating-Rate	1.18	0.65	3.77	4.09	4.84		0.84	0.82	3.91			
Money Market	0.67	0.95	3.01	3.14	1.80	2.01			3.09			
Balanced Portfolio Funds		YTD	05Q4	2005	1YR	3YR	5YR	1YR	3YR	Current	P/E	P/B
Vanguard 60/40		2.98	1.52	4.65	9.56	12.67	5.68	5.10	5.80	2.71	19.70	2.61
DFA 60/40		5.25	1.91	7.20	13.75			5.69		2.24		
DFA 25/75		2.44	1.04	3.99	7.12			2.52		2.85		
Market Index ETFs		YTD	05Q4	2005	1YR	3YR	5YR	1YR	3YR	Current	P/E	P/B
S&P 500		4.63	1.77	4.87	11.97	17.29	3.83	7.79	8.88	1.48	18.08	2.85
DJIA		4.62	1.76	1.61	8.33	14.11	4.42	8.72	9.29	2.08	23.01	3.16
NASDAQ 100		3.83	2.66	1.58	15.12	18.95	1.66	15.66	15.44	0.39		
US Domestic Bonds		-0.77	0.51	2.26	2.36			3.42		4.31		
US Dollar Index		-1.58	1.84	12.76	6.75	-9.25	-23.55	8.40				

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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