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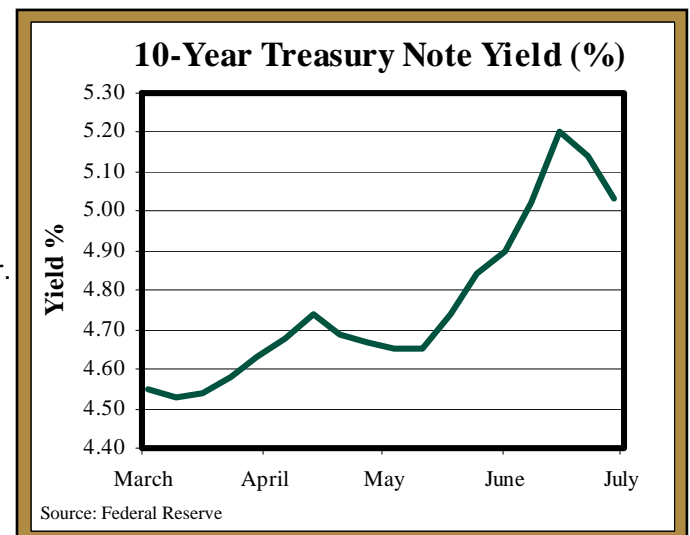
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The Quarter in Review

Equity investors received an unforeseen windfall in the second quarter as the positive market momentum that began last summer continued, propelling major stock indices to new record highs. Corporate earnings continued to grow, climbing almost 10% in the second quarter, providing the necessary catalyst to push stock prices higher. Strong earnings reports by Energy and Technology companies helped to offset weakness in the interest rate sensitive Utility and Financial sectors. The worst performing equities were in the real estate or REIT sector. REIT stocks, as measured by the NAREIT index were off almost 9% during the quarter and are now down almost 7% year to date. This is not entirely unexpected given the tremendous run up in real estate prices over the last few years and the recent gradual "softening" of the real estate market. Large company stocks, many of which are benefiting from strong growth in overseas markets, continued to outperform small company stocks. The Dow Jones Industrial Average continued to set new highs trading above the 13,000 point level for the first time. The Standard & Poor's 500 stock index, which hadn't seen a record close since March 2000, broke through to its own new highest close in May and continued to set records until June 4th. For the quarter the Dow advanced 9.1%, the S & P 500 gained 6.2% and the Nasdaq Composite Index was up 7.7%.

Fixed income investors were not as fortunate. Stronger than expected corporate earnings have been good for stock prices, but they also hint that the economy may be growing at a rate faster than the Federal Reserve Bank would like. The central bank has made no changes to interest rates in the last year but a fast growing economy, and the inflation concerns that come with it, may force the Federal Reserve Bank to continue raising rates later this year. Investors in the Fixed Income market, concerned that interest rates may actually rise again, sold bonds during the second quarter. Indeed, the yield on the benchmark 10 year treasury bond rose from a 4.6% level in March to a high of 5.3% in the middle of June before settling back down to the 5% level at the end of the quarter.



Global Growth

Although the U.S. economy appears to be slowing, global growth remains strong. Gross Domestic Product (GDP) growth in the United States has slowed and is now somewhere less than 2%. Most European country economies along with Japan are growing in the 2% range as well. Global growth is coming primarily from what is known as the "BRIC" economies; Brazil, Russia, India and China. The BRIC countries economic growth,

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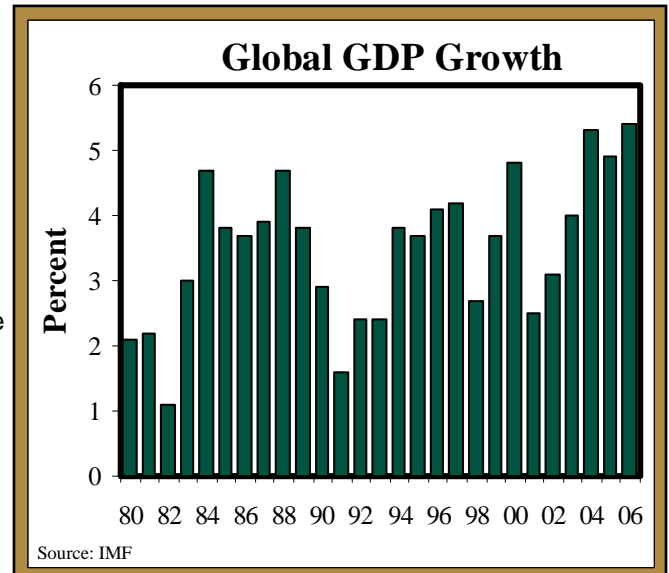
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along with growth of petrodollar nations such as the countries in the Middle East and Norway, have combined to push global GDP growth into the 4-5% range. The combination of globalization, technological innovation, free markets and favorable public policy have all contributed to global growth and should allow global markets to continue growing into the foreseeable future.

The continued growth of U.S. corporate earnings are a result of the fast growing global economy. Many large U.S. companies have significant international operations, generate a large percent of their revenue overseas and, as a result, have been able to continue to grow sales and earnings at double digit rates. According to Merrill Lynch, S&P 500 company profits derived from foreign operations surged 20% in the

first part of this year, while domestic profits actually declined .4%. At Maryland Capital Management we continue to focus on U.S. companies with global operations that can participate in the growing global economy.



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Investment Outlook

“Sell in May and go away” is an old Wall Street adage referring to the fact that historical stock market gains in November through April have typically been stronger than gains between May and October for a variety of reasons. Given the markets strong performance during the first 6 months of this year, with both the Dow Jones Industrial Average and the S&P 500 setting new highs, it would seem that selling in May might be the right thing to do. Yet this is a market that continues to go up based on solid fundamentals, strong corporate earnings and reasonable valuations. The price of the S&P 500 stock index is about 17 times earnings over the last 12 months, only slightly above the average of about 16 in recent decades. By comparison the last time the S&P 500 was making frequent new highs, back in 1999, the index had a price/earnings ratio of close to 40.

An expanding Global economy, relatively low interest rates, strong corporate earnings and reasonable valuations lead us to believe that equity prices will continue to do well this summer and throughout the year. Unlike those who “sell in May”, we are confident that corporate earnings, as well as stock prices, will remain strong during the second and third quarter of this year.