Campbell Capital Management

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Dear Money Management Client:

U.S. Equity markets were well behaved in the first quarter and " riskier" assets outpaced their conservative brethren. We are delighted to see optimism return, although we have our doubts it will be long lasting. Central bank interventions, like the $700 billion Long Term Refinancing Operation last quarter from the European Central Bank, provide a nice boost to liquidity and confidence, but fall short on substantive change. This and similar measures from our very own Federal Reserve are merely short term solutions for coping with very complicated long term fiscal problems, problems that ultimately can only be solved by changing fiscal policy, not monetary policy. Japanese, American and several European sovereign debt balances continue to grow at unsustainable rates and investors are slowly but surely losing confidence.

U.S. corporate profits have surprised on the upside and balance sheets have rarely looked better. But how can businesses plan and expand with continued data volatility, economic disappointments, sovereign debt concerns and European banking strains? Responsible managers are rightly staying conservative with lean workforces and large cash reserves; exactly the opposite strategy one would prescribe for economies in need of growth.

The world was saved from a deep dark depression in 2008 by courageous central bank policy actions, and economies continue to benefit from the abundant liquidity and low interest rates those policies provide. The Federal Reserve has committed to a zero bound interest rate policy for years to come, aspiring to encourage investors into riskier assets. But the Fed and other G-4 central banks have collectively expanded their holdings of government securities and loans from $3.5 trillion to $9 trillion in just four years. Whether this will ultimately create a much bigger problem is the subject of much debate.

We know all good things must come to an end, we just have no idea if central banks have a good exit strategy. We believe central banks are running in unchartered waters and that any outcome, good or bad, is possible. For that reason we remain especially fond of companies that share the wealth through dividends, particularly when purchased at a reasonable price.

As always, we remain committed to a conservative investment philosophy, which emphasizes the preservation of capital. If you have any questions or would like to discuss your portfolio, please do not hesitate to call.

Very truly yours,

Clay Campbell