Campbell Capital Management

9400 S. Dadeland Boulevard, Suite 111, Miami, FL 33156
http://www.camcap.com

Tel 305.670.3140 • Fax 305.670.3142 • Email cc@camcap.com

October 11, 2016

Dear Money Management Client:

We are pleased to enclose quarter end portfolio statements whose gains defy a world of negative interest rates and subpar growth. We know all the bombastic commentary about "ill-conceived" central bank policy and how it's all going to end badly, but we've concluded those sensational "end of the world" articles are just emotional stimulators enticing "suckers" into a $99 annual subscription. It's not that we don't worry about central bank activity; it's just that current policy makes sense and won't end badly.

Japan is 20 years ahead of the other 12 industrialized countries on a journey to greater debt levels and negative interest rates. Of approximately $14 trillion in negative yielding debt around the world, Japan is responsible for $6 trillion of it. And yet Japan is doing just fine.

So here's the explanation. Raising taxes is political suicide, but paying back "savers" (those with money) less than they originally loaned is brilliant confiscation and acceptable. Negative interest rates are really just a tax on the people and businesses that can most afford it. With rates held flat or negative, debt service is manageable, it is just banks and people who invest in or sell bonds that are complaining. Sounds like a win-win for those of us who know how to run a business or how to pick a good business in which to invest.

Eventually it appears our Federal Reserve will get around to another quarter point Fed funds hike, but it's nothing really. Interest rates aren't going up meaningfully because they simply can't. There is too much debt in the world and higher rates would destroy every government's budget. When something can't happen, it just won't happen.

The equity markets are pretty much fairly valued here. We like our income oriented assets for the world we live in, but we're bracing for some volatility due to a presidential election that offers no good outcome. We're entering the traditionally best time of year for being invested, but cognizant the election may be eventful. That said, our biggest concern is always a recession, where the equity markets typically decline 40% or more. On the recession front we are looking just fine. Recessions are a natural part of capitalism, where after a robust expansion generating excess capacity the yield curve inverts and we end up with several down quarters. Since there hasn't been much of an expansion or additional capacity, and the yield curve is nowhere near inverting; we're staying the course and enjoying our dividends.

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, CPA