Campbell Capital Management

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Dear Money Management Client:

In spite of all the doom and gloom, equity markets held their own in the third quarter. The financial media bantered about an over-heating economy with rising inflation one day and over-extended consumers with falling home values the next. The push and pull left most analysts deeply convinced we needed higher interest rates or lower interest rates, they just couldn't agree on which. Even the data dependent Federal Reserve found little information in the daily statistics to support a move one way or the other, which drew bureaucratic criticism like "don't just sit there, do something". Meanwhile, equity markets climbed the classic Wall Street "wall of worry", because investors took comfort knowing that no change in policy was a good thing.

Oil prices declined over $20 a barrel during the quarter and may have helped offset the negative effect to consumer sentiment caused by weaker housing prices. Analysts and politicians watch those consumer sentiment numbers closely because they play such an important role in how people spend and vote. Consumer spending represents two thirds of Gross Domestic Product and consumer attitudes determine incumbent re-election chances. That means incumbent party members will be rooting for cheaper oil thru the November Congressional elections. And if the incumbents get their wish, a few Democrats will probably be watching post election oil markets to see if "payback time" results in much higher prices at the pump. Nothing too sinister mind you, but it is a bit odd the four year old raging bull market in oil took a holiday two months before the elections.

Cheaper oil is also good for emerging market economies. Growing populations in developing nations are increasing their consumption of natural resources, and any price weakness is bullish for their bottom lines. However the overall trend for industrial resource prices is higher because of synchronized global GDP growth. The cheap labor pools in China and the rest of Asia will offset higher costs of generally rising commodity prices and ensure a continuation of record breaking trade surpluses with the U.S.

The price volatility of emerging markets and commodities occasionally make us long for those old bond coupon clipping days, but expanding economies mean the best risk adjusted returns will be in hard assets and equities for now.

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