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

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Dear Money Management Client:

We are pleased to enclose very pretty year end statements. In spite of enormous economic problems around the world, equity investors braved the bad news and continued to purchase risk assets in 2010. The Bernanke and Co. "reflation experiment" discussed in last year's newsletter, is still in full swing with many months left to run. This Quantitative Easing, or QE2 as it's affectionately known, has emboldened investors to have an attitude that although things may end badly, it just won't happen while the Federal Reserve remains engaged and accommodative.

We know Ben Bernanke has studied the "great depression" and the two lost decades in Japan. He is certainly aware of the horrible consequences that an early withdrawal of fiscal stimulus and easy credit can have on an economy in a debt induced recession, and he will do everything in his power to prevent such a relapse. What he doesn't know, what no one knows, is if all the stimulus and easy credit will result in a self sustaining recovery before it's too late. And just when is too late? When excessive debt levels result in higher interest rates and the bond market goes on strike.

Just such an outcome is brewing for the infamous PIIGS (Portugal, Italy, Ireland, Greece and Spain). Debt service burdens in several countries are unsustainable and other countries are reaching that point. Credit default swaps are trading as if Greece has a 70% chance of defaulting, Ireland 51%, Portugal 44%, and Spain a nontrivial 31%. A major developed country has not defaulted on its debt in six decades, but we fear that may be about to change. The contagion from such a default could be the big event for this year. If it is, hopefully our politicians will be taking good notes and getting motivated to start working on a sustainable fiscal and monetary policy.

If we avoid a big sovereign default, this year will probably be similar to the year we just finished. Unemployment and the "output gap" will remain stubbornly high while consumer price inflation remains stubbornly low. Housing will continue to bleed and banks will go right on suffering the consequences of all their bad practices. Around mid-year the Federal stimulus runs out and then we'll see the state budget showdowns. The U.S. faces a long period of below-average growth, where frequent recessions and weak recoveries justify lower price earning multiples on stocks. It's just the kind of economic environment where an emphasis on individual company analysis works so well. Investing, done right, is hard work. But it's also fun, and our 25 years of consistent and measured investing gives us confidence that we will continue to outperform.

Thanks for your continued confidence and trust.

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

SEC Disclosure:
As you know, Campbell Capital Management is registered as an investment adviser under the Investment Advisors Act of 1940. We are required to update the information in our Form ADV periodically, to ensure that it contains up-to-date information about our company. If you would like to receive a free copy of our most recent amendment to Part II of our Form ADV, please call or write us at the address below.

Please send your request to:

Campbell Capital Management
9400 S. Dadeland Blvd. Ste 111
Miami, Florida 33156

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· Government agencies, such as tax reporting or court orders.
· Other organizations such as consumer reporting agencies.
· Other organizations, as permitted by law that protect your privacy such as fraud prevention.
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