

Campbell Capital Management

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Dear Money Management Client:

Mark Twain once remarked, "October, this is one of the peculiarly dangerous months to speculate in stocks. The others are November thru September."

We concur with Twain. Speculation, which involves the attempt to profit from short term fluctuations in financial instruments, is dangerous. We would all love to move successfully in and out of stocks on a consistent basis, but it's just not possible. Owning great companies, who are growing their earnings and sharing their wealth thru dividends is a proven formula for success.

Is now the time when owning great companies makes less sense? Just reading headlines about Europe's insolvency, the upcoming "fiscal cliff", open-ended quantitative easing and Iran's nuclear threat, is reason enough to be cautious. Mutual fund flow data show that equity investors have been pulling money out of stock funds on a consistent basis for over two years, and moving into the safety of bonds and fixed income. Do bonds and fixed income funds make more sense, and are they safer than equities?

While it may seem rational to seek the safety of high grade bonds and fixed income during this period of uncertainty, buyers are not being compensated for the risk they're assuming. With today's generational low interest rates, and the Fed's stated goal of generating more inflation, it's likely that buying a "safe bond" today will result in losses. If market interest rates rise suddenly, the losses for longer term maturities will be substantial.

The companies we own fluctuate in price every day and there is obviously uncertainty where they will price a month or 6 months out. What we count on, is that management teams go to work each day and make good decisions. They will continue producing goods and services people need for living and they will be compensated for it. That compensation will end up supporting our dividends, and over time, share appreciation.

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