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CAMPBELL CAPITAL MANAGEMENT

- EST 1988 -

July 11, 2022

Dear Money Management Client:

It was the worst first half for equities since 1970! Even bonds had their worst first half. It**'s** safe to say, stocks and bonds are in bear markets worldwide. There has literally been nowhere to hide but the U.S. dollar. Which explains why the portfolios are holding so much cash. And even with all that cash, our core investments in Apple, Microsoft and Alphabet have given us plenty to worry about. They'll be fine over time, because recognizing the huge gains and paying taxes would have ostensibly been worse.

As you are probably aware, our Federal Reserve held interest rates too low for too long and now we have a serious inflation problem. The war in Ukraine, supply disruptions from covid lockdowns in China's, crude oil over $100 a barrel and the lack of refining capacity have all helped create the perfect inflationary storm. Our FED, which didn't see any of this coming, is now committed to getting inflation back under control. Unfortunately, that means slowing the economy and reducing demand. Their tool for slowing is to increase short term interest rates until the economy cools. They like to say "we're in for a soft landing, not a recession", but that's wishful thinking based on history.

Markets are pretty far along in the discounting process, so there is no need to get more bearish. But it's also too soon for aggressive buying; bear markets require an abundance of patience while they discount stock prices for a slowing economy and lower corporate earnings. These periods are ultimately very rewarding opportunities for patient investors, and we plan to make the best of it.

Moving forward, the dynamics of our economy have probably changed a bit. The elongated business cycles we've grown accustomed to are going to shorten up. Shorter boom/bust cycles could result without the "FED put", (where the FED comes to the rescue by reducing interest rates and providing liquidity at the first sign of distress in financial markets). It's over because they've taken a huge hit to their credibility due to inflation. Active portfolio managers will likely outperform index investing in these shorter cycles.

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

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