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Dear Money Management Client:

Never a dull moment. For most of this year we've worried excessively about skyrocketing oil prices, housing bubbles, inverted yield curves, hedge fund liquidations, terrorism and more. Yet we're still all here and the markets are doing just fine. It's easy to lose perspective when you feel threatened, but the lesson from all this is that problems we address receive our attention and eventually get resolved. It could be a matter of making changes or simply discounting the effects in your decision making process. Either way, the sensational predictions typically give way to something far more manageable.

Take the housing market for example. Every day for the past three or four months there has been an article or dialogue somewhere on the housing market bubble. "Housing prices have risen beyond reasonable levels and are destined to crash," so the commentary goes. All I can say is that the mere fact everyone is talking about the bubble, means the bubble is being managed. Sure some housing prices have risen at unsustainable rates, but the fact we're all talking about it means we're working thru it. Bank lending standards have tightened and speculators are being cautioned. Some people will go on to make vast fortunes and others will sustain terrible losses, but no catastrophic bursting of a bubble is imminent. Some day there may be a bubble, but only after investors are convinced there isn't one.

One reason the housing market is doing well is because there's a global glut of savings. The United States is running massive merchandise trade deficits with Asian countries and the resulting Asian surplus savings are being cycled back into U.S. bonds and financial instruments. In other words, all the money foreigners make selling us goods is coming back to us. Since the Asians aren't big consumers, all their excess savings are competing for our bonds and keeping interest rates very low. It's a beautiful thing because we get to shop till we drop and the Asians are eager to help.

We're in uncharted waters and even the Federal Reserve Chairman declares there's a conundrum. Never in history has more money been sloshing around the globe. All central banks have maintained loose money policy because nobody wants a strong currency. This has been good for economic activity but it may be sewing the seeds for the next great inflation era. Between the distortions caused by Asia's savings glut and the loose money policy of central banks, this is no time to let down your guard. But the fact we're worrying is obviously a good thing in light of our previous discussion.

In summary, it's the things you haven't thought about that tend to hit you over the head and cause the most pain. Therefore, the more things you think about the better your chances of success. It's the difference between a guess and an "educated guess".

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