

Campbell Capital Management

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Dear Money Management Client:

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We remain mostly in cash while nursing a few equity positions that have gotten too cheap to sell. As we like to say about the companies we still own, "at these prices they will have to pry the stock certificates from our cold dead hands". It's not a pretty visual, but we're not dealing with a pretty environment. World economies are in recession and in spite of herculean government efforts there is much pain ahead. The only reason we will not experience another Great Depression is because government coordinated initiatives have prevented systemic failure.

The Great Depression was a long and difficult period because no fiscal or monetary policy actions were taken to alleviate the deflationary environment. Today's officials are well educated and have an abundance of tools to protect our banks and instill confidence. Falling home values which are eroding bank equity are the central problem in today's crises. While nothing can prevent home values from falling further, efforts to recapitalize banks will prevent systemic failure and a decade of destructive deflation.

While depression risks have been minimized, a deep and painful recession is likely. Jobs will be lost and families will experience some hardship. We're all going to have to learn to tighten our belt and live within our means. The borrowing era is over for banks and hedge funds too. Everyone is going to make do with less. Less consumption, less leverage and less margins. If this were a typical garden variety business cycle recession we'd be waiting for some excess capacity to be eliminated while the Federal Reserve dropped interest rates and encouraged more lending for the next growth phase. But lending is now in reverse. Leverage is being eliminated. So much lending and leverage occurred in all the previous cycles that there is no room left; no ability to service the debt. We've been living beyond our means for too long.

It will be a tricky investment environment over the next decade. During the current period of deflation, where the prices of everything are falling, it is best not to have debt or investments in companies with debt. Before long there will be spending initiatives by all governments to promote growth, most likely in infrastructure, which will present investment opportunities. We will monitor these initiatives closely and look forward to making very rewarding investments. The dollar, long term interest rates and precious metals all have the potential for dramatic moves in the years to come as our government deals with its enormous debt load.

We remain committed to a conservative investment philosophy, which emphasizes the preservation of capital. We thank you for your confidence and the numerous phone calls of encouragement over the past month. If you have any questions or would like to discuss your portfolio, please do not hesitate to call.

Very truly yours,

Clay Campbell