

# *Campbell Capital Management*

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Dear Money Management Client:

Our skepticism about a sustainable recovery, discussed in last quarter's update, is now an old debate without conclusion. Equity prices have responded to the debate in a volatile fashion, but they too show no conviction. Persistent weakness in real estate markets, waning fiscal stimulus, weak labor markets and sovereign debt worries make investors nervous; while tempting valuations and a very accommodative monetary policy give bulls hope. We have remained very cautious during this debate because while the bullish argument has precedence for economic periods since 1945, our view that "this time is different" encourages us to stay defensive.

It's different now because this is the first global balance sheet recession since the great depression. Back in the 30's, like today, there was just too much debt for incomes to support. There are estimates that the industrialized world is awash in over \$225 trillion in public and private debt which exceeds 350% of global gross domestic product (GDP). Our fear is that a period of slow and painful deleveraging of balance sheets by income-challenged households, financial institutions and governments means that a typical post recession recovery is not likely. Rather, deleveraging of debt means we will face chronic deflationary pressures and reduced GDP.

In our opinion, GDP estimates remain elevated because analysts are relying on models developed over the past three or four decades. Unfortunately we have a different data set now that needs to incorporate a systemic banking crisis. It's all been written about in a book by Rogoff and Reinhart called "This Time Is Different" if you would like to learn more.

We don't pretend to be economists, but are forced to pay attention to the "big picture" when making investment allocations. Our expertise is finding undervalued companies with great finances and expanding opportunities which are run by capable managers. As earnings expectations come down we look forward to purchasing just such companies. Rest assured the US economy will eventually emerge lean and mean. It is the world's best economy with the most ingenuity, the most flexibility, and the best political system.

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