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April 13, 2006

Dear Money Management Client:

It was a rewarding first quarter for stock market investors, even though the Federal Reserve's credit tightening cycle continued with its 14th interest rate hike in March. When you realize the Fed's objective in raising interest rates is to slow the economy, then it's just a matter of time before equity prices fall…. in anticipation of lower corporate earnings. That's how it has always worked in the past, but this time investors are betting that the Federal Reserve is just getting interest rates back to a "normal" level that won't inflict pain on the economy. There is even talk now that the next Fed meeting on May 10th will result in the <u>final</u> rate hike, to which investors will rejoice and bid stocks prices even higher.

Corporate earnings were up 14% in the 4th quarter of last year as reported by the Commerce Department. That's a record increase and sets the stage for another good showing in the first quarter of this year. Investors always look for things to worry about, but solid corporate earnings (which represent the life blood of equity valuations) are a feather in their cap.

Employment data are looking reasonably solid but consumer's income isn't keeping up with consumer spending. And why should it? We Americans have learned to live beyond our means and the rest of the world has been happy to finance us. Debt overloads and savings shortfalls are long term issues whose economic impact are the subject of much debate. Everyone knows Americans can't spend more than they make forever, but that's about all you can say. The important point is that consumer spending is the single most important component of economic activity because consumer spending represents two thirds of Gross Domestic Product.

With these few pertinent paragraphs of economic analysis, we find that interest rates, corporate earnings and employment data haven't changed our primary investment themes of the past year. All kinds of resources, particularly the metals and oils, remain favorable investments due to expanding economies and supply inelasticity. Emerging market based economies in Asia and India represent structural growth stories for which investors will be willing to pay higher and higher multiples. The U.S. dollar has little going for it, and when the Federal Reserve signals an end to rate hikes the going will likely get tougher.

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