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Dear Money Management Client:

Based on the performance of your enclosed portfolio statements, it looks like a nice summer vacation is in order. We always do our best to hold down expectations, but with world economies humming along it is much easier to maintain an optimistic and bullish outlook. We all enjoy the stock market when it's making new highs and there is certainly never a better time to be invested and stay invested.

Losing money on an investment is uncomfortable, but money managers experience far more pain when they fail to participate in a good market like this one. One group experiencing just such pain are adherents of the classic Wall Street axiom "sell in May and go away". Because the market typically performs poorly during the summer months starting in May, these traders are known to liquidate their portfolios and head for the Hamptons. This year the strategy is not working so well, and while the rest of us enjoy our leisure, these traders are scrambling to put money back to work. All that money coming back in from the sidelines is beneficial to the "fully invested" crowd as they watch summer stock prices bid higher.

Just so you don't think we're goofing off, there are still plenty of things to watch and worry about. Rising commodity prices are ever present and could become an inflationary problem. Higher prices attest to strength in the global economy and Central Banks know that unrestrained growth will eventually become a problem. Rising government bond yields during the past two months have been in the Federal Reserve's favor and if market forces continue to do the heavy lifting we'll stick with our January prediction, "the Fed won't be making any changes in policy for a long time".

The biggest risks to our economy remain the downturn in housing and sub-prime debt. The housing downturn could have much more room to run and for that reason estimates of GDP growth have a wider range than usual. Sub-prime debt problems continue to surface and could easily spread to other credit markets or cause additional financial implosions like the one at Bear Stearns. Housing and sub-prime debt together cause the risks and uncertainty to be much higher. We especially worry about the "Plankton Theory" where losing the first level in the mortgage "sub-prime" food chain has dire implications for everything housing related.

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