

# Campbell Capital Management

9400 S. Dadeland Boulevard, Suite 111, Miami, FL 33156

<http://www.camcap.com>

---

Tel 305.670.3140 • Fax 305.670.3142 • Email [clay@Lasalle-St.com](mailto:clay@Lasalle-St.com)

July 21, 2009

Dear Money Management Client:

The “New Normal” is upon us. Mohamed El-Erian, the prolific writer at PIMCO, coined that term to describe our new post financial crises world: a world of muted growth resulting from deleveraging and increased regulation. This slow and difficult period of massive government fiscal deficits and persistently high unemployment will be challenging for policy makers. The liquidation of excess debt through inflation or mass bankruptcy will be discouraged and unfortunately a long period of rising taxes and socialized losses will dominate. We are all going to learn to live with less and our expectations will be lowered. The “new” normal is not going to be nearly as fun.

Since the prospects of returning to a typical post 1945 recovery are remote, spending and investment decisions must change. Consumer spending will remain subdued and thoughtful because of less discretionary income. The best investments will provide cash on cash returns as opposed to promises of future gain. Government actions have prevented a depression, but we’ve been left with much uncertainty and elevated risks.

We have a lot to worry about because all the government sponsored stimulus and relief programs are unprecedented. Trillions of dollars have been disbursed to banks and brokers or used to purchase commercial paper and mortgage-backed securities. Those funds could be lost or may provide the seeds of rampant inflation. Excess capacity and high unemployment are deflationary forces now, but if the economy gains traction it will be a different story. The Federal Reserve has stated it will act decisively to prevent excess money growth from stirring up inflation once the economy recovers, but will they be successful? Recognize that there is just so much available savings in the world, and right now the US government is consuming most of it.

This year’s first half has rewarded our emphasis on short term corporate bonds and high dividend yielding stocks. This strategy will continue to outperform in a slow growth economy. Emerging markets like China offer the best prospects for growth moving forward. In summary, we are finding plenty of good investment opportunities but remain respectful of the elevated risk.

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