

Campbell Capital Management

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Dear Money Management Client:

We've had a nice start to the year, but as Amy Poehler was fond of saying in her regular "SNL" skit... "REALLY?" The economy is recovering nicely and employment is showing signs of improvement... "REALLY?"

We're not doubting that conditions have gotten better, but high bullish sentiment and rising earnings forecasts would lead you to believe that we are near escape velocity for a self-sustaining robust economic recovery. Nothing could be further from the truth.

Not mincing words here; we are nowhere near the economic or employment growth rates customary in a post WWII recovery. All that the federal government's stimulus and Federal Reserve's quantitative easing have done is prevent a more severe recession or depression. The generic business and employment growth required for an enduring business expansion remain elusive. That is why there is so much debate regarding the end of quantitative easing and why Congress failed to make genuine and substantive budget cuts.

We remain optimistic, but as long as the U.S. residential real estate market remains in a fundamental downtrend, we will be suspicious of reported economic growth. At these levels of prices for food and energy, there will be demand destruction elsewhere in the economy. No wonder equity markets have not made any progress since January.

On a simple earnings yield basis, equities are actually quite reasonably priced here. When you compare the S&P 500 earnings yield of 7% to a 10 year Treasury bond yield of 3.5%, it makes sense to favor equities. With that macro outlook, we're happy to keep searching for great businesses selling at a discount. We want to avoid any business dependent on a government-led consumer rebound while embracing defensive businesses that can grow their cash flow in good and bad markets. We like to think of our shares as the right to an earnings stream rather than some trading vehicle with appreciation potential.

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