

Campbell Capital Management

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Dear Money Management Client:

Watching the budget negotiations in Washington is like digging a festered splinter from your hand. You know the splinter is coming out, but you don't know when or how much pain is in store. And just like when the splinter is gone, budget cutting decisions will leave painful results.

Soon we can expect a budget deal and debt ceiling increase from our self-absorbed government leaders. But we doubt many people will be happy with the cuts to entitlements or the tax increases required for it to be a lasting success. That's just the way it is when you've spent more than you made for years on end and have no interest in changing. The PIIGS, (Portugal, Ireland, Italy, Greece and Spain) are all suffering the consequences of similar spending habits this past decade. Some of their debt levels have reached unmanageable levels and restructuring/defaults are now assured. Hopefully our politicians are watching carefully as these PIIGS lose control of their finances as the markets lose confidence. The game is over once the markets decide you've "kicked the can" far enough!

U.S. politicians still have room to negotiate over limited substantive budget reform. But rest assured the can has been kicked very far, and we are becoming more like members of the European Union every day. No politician wants to make the tough choices on his watch and that's why markets end up doing the heavy lifting. The cost of borrowing will rise as lenders demand more to compensate for deteriorating credit.

We find ourselves often worrying about the consequences of restructuring and default, but nothing changes the simple fact that people will continue to eat drink and go about living. Our portfolios are loaded with reasonably valued companies that successfully deliver the staples and utilities of life. Their consistent and abundant cash flows will continue to reward us with dividends and capital appreciation. "Safe income at a reasonable price" has served us well the past few years and will continue to do so as economies muddle along while paying down loads of legacy debt.

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