

# *Campbell Capital Management*

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Dear Money Management Client:

We are pleased to report our portfolios ended up having a pretty good year, in spite of all the uncertainty and volatility. A keen emphasis on owning high dividend paying stocks, purchased at a reasonable price, was the best strategy in light of a slow growth deflationary environment. Not much has changed in the economic outlook, and our strategy of “income at a reasonable price” continues.

Last year began with us worrying about the contagion from a sovereign debt default, and this year begins with the same worry. Timing these things is never simple, but our accounting backgrounds lead us to believe a debt default by Greece and possibly other Eurozone community members is likely. A default event, no matter how often it’s talked about, will be disruptive and confusing for equity markets worldwide. It is for this reason; “heightened uncertainty” that we have maintained larger cash balances than normal.

Equity valuations in the US and other developed nations are actually quite good. Corporate profit margins are near record highs and the price/earnings ratio of the S&P 500 has seldom been this low during the past twenty five years. But a European crisis which leads to slower growth worldwide will not be good for corporate earnings or stock prices.

We are nearing the end of a decades long period some refer to as the “debt super cycle”. Developed nations have borrowed and spent more money than they have the ability to repay, and now comes the time for tough decisions and painful choices. Raising taxes, cutting entitlements, constraining health care costs and shrinking the military are all necessary. None of these painful choices are good for growth, and as we have witnessed in Europe the process of “austerity” leads to more weakness. Deleveraging, or paying down debt, is deflationary.

As we’ve said before, this is just the economic environment where an emphasis on individual company analysis works so well. “Timing the market” is nearly impossible with the kind of unpredictable news flow we’ve been living through, but owning great companies, where employees go to work each day to produce things we can’t live without, is a sound recipe for success. Utilities, consumer staples, pharmaceuticals, and energy stocks all provide things we can’t live without and these industries are well represented in our portfolios.

As always, 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

***SEC Disclosure:***

*As you know, Campbell Capital Management is registered as an investment adviser under the Investment Advisors Act of 1940. We are required to update the information in our Form ADV periodically, to ensure that it contains up-to-date information about our company. If you would like to receive a free copy of our most recent amendment to Part II of our Form ADV, please call or write us at the address below.*

*Please send your request to:*

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- Other organizations such as consumer reporting agencies.*
- Other organizations, as permitted by law that protect your privacy such as fraud prevention.*

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