

Campbell Capital Management

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Dear Money Management Client:

We expected much more market volatility this year and haven't been disappointed. The number of 200 point range days has been remarkable, and yet the averages sit unchanged on the year. We attribute most of the market's volatility to the "machines" and their algorithms running amok. But honestly, no one knows. Wall Street noise is very distracting and can lead even seasoned investors to make bad decisions. We've been rewarded time and again, since the "Great Recession" of 2008, by staying invested in income oriented assets that outperform in a low interest rate environment. Just today, CNBC reported that the 10 year government Bund in Germany had a negative yield. Yes negative, if you purchase a German bond you pay the government every year for next 10 years, for the privilege of owning their bond. And that helps explain the market's volatility, because when things don't make sense investors are confused.

The ZIRP policy (Zero interest rate policy) of industrialized nation central banks is creating distortions in the markets. We know that these very low rates are bullish for asset prices and will continue to encourage investors to buy equities and real estate. But the longer this ZIRP policy stays in force the bigger the distortions will grow. Central bankers remain confident they can encourage economic growth through their monetary policies, without causing bubbles or runaway inflation. Investors look to Japan, where rates have been extremely low for 20 years with no inflation, even while debt to GDP increased five times, and find comfort. But really it's just impossible to predict how G-7 markets will normalize and when. For now, we embrace the benefits of ZIRP and stay focused on what works in a low interest rate environment.

Central bankers are doing all the heavy lifting with monetary policy. If politicians everywhere would get on board with some long needed reforms to fiscal policy, our confidence in a positive outcome would increase substantially.

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, CPA