

Campbell Capital Management

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Dear Money Management Client:

Here's a quick update on recent market volatility. Portfolios have traded negative on the year as you'd expect with broad averages down 10% from their highs and some 60% of stocks down 20% or more. It has been a fast and furious correction, but that's a good thing. We raised a significant amount of cash early on and are now waiting to make opportunistic purchases. This is not 2008 and we are not going into a recession.

Stock market corrections typically occur when corporate earnings are expected to fall. In this case, it's been concerns that China's economy is slowing so much that all her trading partners will be hurt. Emerging markets and commodities have been particularly hard hit.

Not all selling can be blamed on China though. The five sigma 1000 point down opening on August 24th can be blamed on systemic and technical investors (aka computers) using esoteric trading strategies that exacerbated the selling. The volatility is a result of too many machines using similar quantitative and risk parity trading systems. The "door" is simply not big enough to accommodate all the trades exiting at the same time.

Both of these issues are serious, but not enough to derail the U.S. economy or equity markets for long. Our unemployment rate is at a six year low, interest rates are very low, inflation is low and the yield curve is positively sloped, home and auto sales continue to be strong and construction spending and personal consumption expenditures are picking up. China is a bit of a mess, but they have trillions of dollars in reserves and a fiscal spending plan is surely being prepared.

We expect plenty more volatility this month and possibly next, but our outlook remains that this period will be looked back on as nothing more than a "growth scare." We'll continue to monitor all the economic indicators in case something changes, but for now we have an optimistic fourth quarter outlook. This is when 30 years of experience makes a difference! Which reminds me, everyone always wants to add money to their account at the highs, but now is the time.

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