

Market Note

Follow Up to Events of May 6, 2010

Yesterday's volatility continues to spill over into today's trading. Fear and a lack of conviction to stocks and bonds are fueling this continued down turn. As we said yesterday this year's run up in the markets was swift and the chances of a pull back was high. This is the natural cycle of the market.

There is no definitive answer as to who or what caused the dramatic sell off that saw the markets fall 9 percent or more. A little research reveals that six stocks hit zero yesterday. Sam Adams Beer and Exelon Energy were two of those names.

We pointed out yesterday the global pressures on the market. Greek debt, this year's run up in stock prices, looming financial regulation as well as the British elections have all played on market emotion. Add to this the possible errors by traders and the use of programmed and high speed trading systems, and you have the perfect storm for wild market swings.

These events need to be put into some perspective. Some truths about the market and the economy: they run in cycles. Ups and downs in both vary only by their severity and duration. The cycles are inevitable. Legislation and rule making will not prevent them; but will only alter characteristics of them. Another truth is emotion can take over.

Emotion has and will continue to be a market driver, both up and down. The key to successfully managing through the emotion is not to get caught up in it and become a victim of it. What needs to occur is an analysis of the underlying causes of the sell off and the longer term economic and market outlook.

What this event highlights is the continued concerns over sovereign debt, the spread of debt problems and the likelihood of default. It also puts into play the stability and long term viability of the European Union. These events are a real test for member nations. Will the EU continue to exist or will it eventually dissolve or change form? A change to EU structure would create turmoil and opportunity.

In the US we need to take a hard look at our trends in budget deficits and longer term debt and unfunded obligations. The question will be simply can we afford it? These events will fuel the debate over our economy and its direction in the coming months.

Back to the market events of yesterday. The SEC and other regulators, the markets themselves and Congress are all beginning to look at the causes of the market swings. It is not likely that any one event caused the gyrations. The results of these multiple investigations will be weeks or months away.

We can expect continued near term volatility in the markets and weakening of the Euro. But like all of these market events, it is exactly that an event. It is not a trend or something that lasts forever. Remember markets and economic cycles go through up and down periods; that is the natural progression.

We will continue to monitor these events and report back when appropriate.

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