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Is this a market we can trust?

Last Thursday's 1,000 point swing was no accident

Before going into last Thursday's mayhem, here are a couple of thoughts on the mess in Europe:

- This seems more like a dress rehearsal than the final act.
- The European Central Bank (ECB) did what we and others hoped they would do, but not until late Sunday when it became obvious that the market needed more.

The European plan is highly complex, but making announcements and taking action are two different things. If the market sniffs out more dithering, Monday's rally will melt away quickly. We'll stay on it---in fact this morning I snagged one of the last seats at a June Bank Credit Analyst Conference in London.

As for Thursday and the 1,000 point ride on the Dow: It is now clear that there were no trading errors that day---no B's instead of M's---no fat fingers on the keyboard.

Dow Jones Industrial Average



The system worked as designed. There's good news and bad news in that sentence.

The bad news: As things stand now, a similar trading pattern could happen at any time. Computers were making the decisions that afternoon and as they kept piling on sell orders, the New York Stock Exchange began brief suspensions of trading. A 90 second pause was called by the specialist in Procter & Gamble stock to sort things out before resuming activity. In those 90 seconds, millions of shares of P&G stock were directed away from New York and onto electronic exchanges around the world. Those exchanges couldn't handle the volume so the price kept falling until buyers appeared. (It turns out that the buyers were computers as well!)

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P&G never traded below \$55 on the New York Exchange, but it traded at \$39 elsewhere. And don't think it traded much between those prices. It fell to \$39 in seconds, where the sellers could be matched with buyers.

We have told our brokers that we may want to restrict our trades of New York listed stocks to the New York Stock Exchange---they tell us it can be done. There may be other ways to protect ourselves and we will explore them.

Keep in mind that those who were hurt on Thursday were using mechanical systems to substitute for common sense and human judgment. That will never happen here.

The good news: Corrections flush out the nervous money in stocks and give long-term investors the opportunity to buy bargains. Now that we know that Thursday's action was real, it is possible that the supply of sellers was reduced dramatically around the 10,000 level on the Dow.

Our decision to wait out the correction has paid off this week. However, we think we've entered a new phase in the market and we have responded by shifting out of some of the commodity related stocks and into US based growth stocks. We used Monday's strength to raise some cash to fund that shift.

The trip to London next month will give us the opportunity to question the BCA analysts personally and learn how Europeans view the latest crisis. Attached is an agenda for that meeting.

Best regards,



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