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We still think this is a correction

Increased volatility is scaring investors

The market is closing up over 100 points as this is written, but that will make no one feel better about stocks tonight. Even though the Dow remains over 50% higher than it was at the low in March 2009, the volatility of the last six weeks has been unnerving.

The market has been a totally different animal since the beginning of May. In March and April the average daily range for the Dow was 95 points. (the range is the difference between the high and low price of the day) Since the beginning of May the daily range has averaged 266 points.

That's more than a 2% daily change and more than many investors can stomach.



Still, this chart of the Dow since the low point in 2009 illustrates why staying out of stocks in the last year has been a colossal mistake.

Of course the real question remains: will it be a mistake to remain in stocks for the next year? We don't think so---we expect higher prices in the next twelve months. We've outlined our reasons for this position in the last few weeks and none of that has changed.

The changes we've made to our portfolios this year have helped and most of them involve buying US companies showing strong profit growth. The US market has been one of the best performing markets in the world this year and with the problems in Europe, that looks like it will continue.

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For those who still believe that the US is failing as an economic power, we came across some interesting numbers this morning, which argue the opposite.

In the last 15 years the BRIC countries have more than doubled their share of world GDP. But the US share has remained stable at 25%. Take a look at who lost share since 1995.

	Percentage of World GDP	
	1995	2009
USA	25%	25%
BRIC Countries*	7%	15%
Europe	25%	21%
Japan	18%	9%

* BRICs - Brazil, Russia, India, China

We can't be certain that the next 15 years will be as good for the USA as the last 15, but based on policies in place today, Europe and Japan should continue to struggle when compared to our own economy.

Asia remains the high growth area and the recent correction in stocks there, which has been much worse than ours, is presenting us with the opportunity to buy into some great businesses at attractive prices.

I'll be in London next week attending the Bank Credit Analyst Conference. I'll let you know what the glum Europeans are thinking these days and see if any are ready to start buying US stocks. (anything is possible!)

Best regards,



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A copy of our Form ADV Part II regarding our advisory services and fees is available upon request.

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