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# Statement on Current Market Conditions

## May 7, 2010

On May 6, 2010, the equity markets experienced a brief period of extreme volatility. The intraday drop on the Dow Jones Industrial Average approached 1,000 points, the largest daily drop in history. Fears over Greece's fiscal crisis and its potential impact on Europe and the global economic recovery were first and foremost on many investors' minds. Media coverage focused on Greek civil unrest and the potential passage of Greek austerity measures. While the Greek situation has been well documented and unfolding for many months, uncertainty over the potential bailout and austerity measures necessary became headline news. Concern over broader contagion risk from other overleveraged European Union member countries appeared to peak, setting the stage for increased volatility in the capital markets.

In addition, there has been speculation that a large trading error served as the catalyst for the severe market downdraft, but nothing concrete has been identified. Following this massive drop, the Dow Jones Industrial Average rebounded quickly, trimming the outsized losses but finishing the day down nearly 350 points. The speed of the market downdraft and subsequent rally has caused some to dub the event as the "Flash Crash."

The increase in volatility, likely sparked by concern over Greece, caused trading on some of the major exchanges to "slow." Exchanges initiate slow trading in periods of extreme volatility in order to facilitate a more orderly process of price discovery. The major drops in liquid blue chip names such as Proctor & Gamble (PG) and 3M (MMM) were likely caused by traders executing market orders away from the major exchanges at prices very disconnected from the stock's intrinsic value.

The Greek economy is relatively small, representing roughly 3% of Eurozone GDP and ranked 27$^{th}$ in the world in terms of GDP. As a result of wasteful spending and difficulties in raising taxes, Greece's deficit is in the range of 13%, well above EU targets of 3%. Greece has set a plan to cut expenditures, reduce public-sector salaries, raise taxes, and take steps to reduce corruption. Some of these initiatives have been met with resistance from Greek voters, including trade unions.

The major spike in volatility, while disconcerting, was clearly disconnected from the stock market's fundamental value. We are encouraging clients to continue adhering to their existing strategies focused on meeting their long-term investment goals. We remain vigilant on these developments and look forward to sharing our findings with you.



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