Special Market Commentary

Dear Clients:

The Dow is up about 400 points this morning as I type. While it is going in the right direction, this volatility we are seeing is reminiscent of the market action we endured during the fall of 2008. It is unsettling. Last Thursday we witnessed a bizarre turn of events as the Dow traded in a range of over 1000 points in the span of a few hours. The exchanges are still investigating what appears to have been caused by an exchange system error that was exacerbated by computerized program trades. I about fell out of my chair late last Thursday night when I read this quote on the Wall Street Journal website:

"With Accenture, for example, 20,365 shares changed hands at around $39.98 during the minute of 2:46 p.m., then another 68,516 shares were traded at $38 per share during the minute of 2:47. But then in the 2:49 p.m. minute, 66,277 shares traded at one cent. By 2:50 p.m., the stock was back up to $39.51." In the days ahead we will learn exactly what caused last Thursday's extreme swings and we will likely hear of steps that will be taken to prevent this from happening again.

Importantly, only part of the wild price swing was caused by a system error. Much of the price swing and much of the market decline of last week was, in our opinion, a result of the market being spooked about the sovereign debt crisis in Greece and other countries like Portugal, Italy, Spain, the UK and yes, the US. The governments of these countries, like the governments of most developed countries, have borrowed huge sums of money and the market is telling us there is a limit to how much one can borrow. While the EU has agreed to a massive bailout for Greece, this story is not over. Paying down the mountain of debt that governments of the western world have piled up is a long-term problem…not one that will go away any time soon.

So, in our opinion, this uncertainty about government debt is spooking the market, resulting in falling stock prices and greater volatility. One could argue that we were due for a pullback after the near record-setting tear the market has been on since March of 2009. Even after the setbacks of the last few trading days, the market as measured by the S&P 500 is still up over 65% since its low of March 2009 excluding today's movement. Despite this, it is no fun to see all of our 2010 gains year-to-date wiped out in a few trading sessions.

As we have mentioned in our last two Quarterly Commentaries, we think it makes sense to be prepared for continued volatility in the coming months. History shows that the market declines by 10% or more about once per year, by 15% or more about once every two years and by 20% or more about once every three and a half years. Importantly, we do not think you prepare for potential volatility by going to cash or by making drastic changes to the portfolio. In the long term, we are always going to get it wrong with that type of strategy. We think being prepared means maintaining a portfolio allocation that is appropriate for your age, risk tolerance and need for return. Additionally, we think it makes sense to keep our emotions in check and think long term.

We hope this is helpful. Please let us know if you would like to review your portfolio or your financial planning.

Sincerely,

Benton S. Bragg

Benton S. Bragg, CFP, CFA
President, Bragg Financial Advisors, Inc.

BRAGG Financial Advisors

1031 South Caldwell Street, Suite 200 • Charlotte, North Carolina 28203 • (704) 377-0261 • Fax (704) 334-9754