

The Stock Market Drop of May 6th, 2010

The experts (the talking heads on TV) will spend time analyzing the 1,000 point drop but the real culprit is all of the computer geeks that program these things to enter over 7,000 trades in one second. The programs are all different and very proprietary. But guess what. They all do the same thing. For whatever reason, these computer trading systems pushed some stocks to zero! Accenture and a beer company both went to zero. A stock in the Dow Jones Industrial Average dropped a large number of points pushing the average down 1,000 points.

BUT HOW ABOUT THIS? Because of the way the Dow Averages are calculated (which we had covered in prior newsletters), if Sothebys (the auction house) was in the Dow Industrial Average, that average would have gone from about 10,000 to over 800,000 thousand! This is because while a few stocks went to zero, Sothebys went up to \$100,000 per share, from about \$35 per share. When a stock in the Dow Jones Industrial Average goes up or down one point, it affects the average by eight points.

The Standard and Poor 500 index is cap weighted, therefore each stock in the average is weighted by the price of the stock multiplied by the number of shares outstanding. The highest weighted stock in that average is Exxon Mobil which is 2.91% of the S&P 500. These stocks are not weighted every few minutes, but on a regular basis. If Sothebys was weighted when it was at \$100,000 per share, it would have a weight of about 27% of the S&P 500.

All of this seems rather silly, but it is far from it. I believe that these computer traders don't know anything, or for that matter care anything about the individual company in which they are investing. Take for example the bankrupt and worthless portion of General Motors. That stock is called Motors Liquidation Company (MTLQQ) which is well known to be absolutely worthless. That stock is currently selling for about 37 cents per share. The fact that it is and will be worthless is meaningless to traders in that stock. All they care about is it going up or down. If it goes up or down a couple of pennies they can make money (or lose it). Eventually of course it will go to nothing!

My thoughts go back to when I was training for a position in the investment business. It was 1963. I spent a week on the floor of The New York Stock Exchange. I remember being with a "specialist," and him telling me about the Specialist System. Their job was to reduce volatility in the stocks for which they were a specialist. They were required to buy as stocks dropped and sell when stocks rose. (They were often maligned since they were making money while lowering volatility). (BOY, we sure do miss the Specialist System.) Of course it was *just a little easier* then. They hadn't done 1 million shares a day yet. That's correct. Seven hundred thousand shares then was a *really big* day. (The first day 1 million shares were traded, the tape ran until 10:30 PM to report all the trades.)

What I learned in my Travels

I flew to various cities to visit my son Andy, his wife and their son. I also visited various friends in different cities. In most cities I rented a car. I was just by myself so I really only needed a small car. Therefore I requested a Compact Car from the three companies from which I rented, Hertz, Avis and Enterprise. NONE of these companies had Compacts. Two companies rented me a midsize, while the third (Avis) rented me an Explorer (eight passenger bus)! Each company however only charged me for a Compact since that is what I requested.

I think in the future, I'll just request a Compact and pay for such, and hope I get something smaller than an Explorer.

Our new Offices

Please stop by when you can. We are almost across the street from our old offices in our own building. We have about 35% more space.

It really worked out so very well, and we would like to thank everyone for their help in designing, constructing and moving into this new space. We occupy the whole building, therefore the name, **The Aranda Building**.

AND THE WINNER IS

Our contest, which started 3 Newsletters ago finally has a winner. Joshua Bernbaum was the first person with the correct answer.

The question was: What is the significance of the colors Blue, Green, Red, White and Yellow, with those five colors being EXACTLY in that order. Once in a while, the color Orange is used (between Green and Red).

These are the colors of the Wire Tie enclosures at the end of a Wonder Bread to indicate which day the bread

was baked. Actually these are now used by other bread bakers as well. Blue for Monday, Green for Tuesday, Red for Thursday, White for Friday and Yellow for Saturday. If bread is baked on Wednesday, the tie would be Orange.

The information is very useful. One problem however- - - I recently bought a bread on a Thursday with a Green Wire Tie. Was this bread baked this past Tuesday, or last Tuesday? Take a look next time you are buying a bread. The color of the Wire Tie indicates the day that the bread was baked, just not the week! Good luck!



STAFF

Arthur Rosenberg.....President
 Steven Rosenberg.....Exec. Vice President
 Jacki Simmons.....Vice President
 Tom Gallagher.....Investment Assistant
 Joanne Keller.....Investment Assistant
 Allen Hefner.....Client Services
 Erica Gurian.....Client Services
 Bill Harbison.....Accounting
 Carol Edmond.....Client Service
 Carla SchenkClient Service

THE ARANDA GROUP
 The Aranda Building
 724 Old York Road
 Jenkintown, PA. 19046-2833
 Phone - 215-576-6666
 Toll Free- 877-272-4033
 Fax- 215-884-0356
 Web Site
 www.arandagroup.com

The Oz

We were in Oshkosh a few weeks ago for the EAA Exhibit and Airplane Convention. I stopped by the Dominican Republic booth where they were promoting visiting by private plane. DR has an airport named for Osvaldo Virgil, Ozzie



(Osvaldo)'s dad. As Ozzie (Retired Phillies Catcher) explained to me upon visiting him a couple of weeks later, his father was the first baseball player from the Dominican Republic to play in the Major Leagues. Therefore the airport was names in his father's honor.

That's just something else I didn't know. Would I like to land there? You betcha!! Just not in the summer.