

NEWS RELEASE

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# Brady Investment Counsel LLC

FOR IMMEDIATE RELEASE  
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## Did a Big Bet Help Trigger 'Black Swan' Stock Swoon? Our letter to Tom Lauricella

Dear Tom,

Thank you for adding detail to the last week's trading event. We believe there's a lot more to the story, however. The closest thing the market has ever experienced was 10-19-1987. The big difference between then and now was then portfolio insurance was big, big. We all knew many institutional accounts were doing the same thing to "insure" their portfolios. It was easy to understand why the selling pressure existed because so many were following the same buy high, sell low strategy. That is not the case today. I don't understand where the buy orders were? Why didn't any of them they kick in? No computer model existed pointing out Accenture (ACN - \$41) was cheap at \$30, \$20, or even \$18.0 per share? These are days when, as you say, two-thirds of volume is HF traders?

Black Swan at the pinnacle of the Thursday's problems is a curious head scratcher? I couldn't find their long-term performance but would assume (and even recall reading at some point last year) it was less than stellar up until 2008. Unless Mr. Taleb changed his stripes, am guessing it wasn't super great in 2009. Was 2010 any good up until last Thursday? To maintain a fully hedged portfolio with put options would cost around 10% per year over the course of a year, maybe more. That is an impossible hurdle to overcome over the long run. In 2007 wasn't as if Black Swan made some great call by pointing out the market was 30% overvalued and the global financial system - thanks to off-balance sheet shenanigans and deep, deep interdependence - will crash when the real estate market stumbles. My understanding is his investment thesis is simply big negative can happen and you should protect yourself buying

deep out of the money puts? Hardly the thinking a Nobel Prize is awarded to. More just being in the right place at the right time.

Last Thursday's trading event happened fast and is not understood. It shakes my confidence in the system to the core. What is being done to make things right for the people who lost money? We held a position in AIG common. For the first time ever we entered a stop-loss order to protect ourselves from a bum quarter. The stop-loss was deep out of the money. Thanks to last Thursday's trading meltdown the shares were sold and are now trading \$6.50 higher. That is an 18% move we missed. Any talk of reversing stop-loss orders that were triggered?

Again, thank you for your work. There is more to come...I am sure!

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President

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