

Market Commentary

By Art Cashin

Prepared by UBS Financial Services Inc.

Statistics -

Fair Value	= -230
Buy Program	= -130
Sell Program	= -330

Cashin's Comments

An Encore Presentation

This particular May 17th of which I speak is a lovely day indeed in Manhattan. And this being 1792 and New York being the new capital of the new U.S., there are many citizens out and about to catch the spring airs. And more than a few of them are milling about a very popular joint, just off Wall Street, called the Merchants Coffee House. Personally, I believe this establishment owes its popularity less to its famous cheesecake (which is rather okay for New York City) and more to the beverage in its name.

For, while they actually do much of their beverage traffic in liquids other than coffee, it is quite helpful, upon arriving home, to be able to declaim to "she who suspects everything" that you have had a tough day at the Coffee House. (Somehow, even in 1792, "Honey, I had a tough day at the Ale House" smacks of underperformance.)

Another feature of this bistro is one that I particularly like. They have a table and bench on the lawn, under a large Buttonwood Tree. So, I am headed there on this particular morning for a flagon or two of "coffee".

However, before I can eyeball Priscilla to bring me the usual, I find 24 citizens around this outdoor bench which I fancy somewhat. These two dozen gents are folks of some substance (both physically and financially) so I hold back a bit before claiming my usual spot. It is then that I see that one of the 24 gents is a merchant and fellow "coffee" drinker whom I know as "Verily, Verily". He gets this tag because this is what he says whenever a client doubts his word. (This happens so frequently that he repeats the phrase so often that whenever a citizen sees him, said citizen immediately says - "Verily, Verily".)

Anyway, "Verily, Verily" says to me - "Art, do you have perhaps a spare \$200 with which to join this venture?" He then explains that each of these merchants puts up \$200 apiece to join something they will call "The New York Stock and Exchange Board". "Verily, Verily" says the boys think this is a very good investment for several reasons: 1) A guy named Napoleon Bonaparte was at this time making all European Bonds as unpredictable as a turf race in a rainstorm; 2) Certain gents were making plans for various ventures like canal companies and private turnpikes.

Well, these are nice thoughts indeed but personally even if I have \$200 (a very unlikely event), I do not see much vig in this Stock Exchange idea.

"But" says "Verily, Verily", "do not scoff, for a story goes with it" (over the years I learn this can often be a very expensive sentence).

It seems these guys are onto a deal that a certain Alexander Hamilton has cooked up. He wishes to change the large revolutionary debt into Publick Stock. The aforementioned debt is such a palooka that many citizens shun these "Continental" as having very little value. In fact in graffiti school, kids are writing "Not worth a Continental" on walls and such.

In further fact, this colonial money is so bad that almost all business is done using a Viennese coin that looked like a Spanish "pieces of eight" (called "the Thaler" at this

time but with a New York City accent it is pronounced "dollar" and this is where this word comes from. P.S. - said coin is cut like a pizza so you can break off an eighth or 12 1/2 cents. If you broke off 2 such "bits", you have a quarter - get it.)

Anyway, Hamilton is having difficulty getting the votes he needs to convert to Publick Stock. So he strikes a deal with a certain Thomas Jefferson who wishes to move the U.S. capital to Virginia (to be closer to home). And to prove they were honest, these two citizens decide to build said capital on some swampland owned by a gent named George Washington.

Anyway, the deal is struck and suddenly there is lots of Publick Stock to be traded on the New York Stock Exchange. Naturally, shy the \$200, I miss out on the Buttonwood Agreement but I sign up shortly thereafter and am here since then. Another day, I'll explain why they call it "a seat" when everybody stands up at the Stock Exchange.

It wasn't markets being founded that consumed traders yesterday. It was fear of markets, and governments, foundering.

Greek ATM Lines And Expiration Bluffing Send Stocks South – Tuesday's trading turned strange even before the market had opened in New York.

An oversold condition and decent data at 8:30 had U.S. futures bubbling on the upside early on.

Suddenly, around 9:00 EDT, lightening seemed to strike. Futures tanked and European markets went into a freefall. "What just happened" was the cry that echoed across the floor.

The trigger was the announcement that the Greek President was disbanding the last effort to form a coalition government.

Media pundits wondered what was the surprise. Wasn't this expected?

The answer was – yes it was expected but now it was a fact. The power to resolve had shifted from a roomful of professionals to the streets of Athens. Compromise was no longer a possibility.

The sense of hopelessness was underscored by rather vicious selling in the Greek bank stocks.

U.S. stocks tried to resist and opened mixed but wary.

For the balance of the morning, the bulls tried to mount a rally off the oversold condition, produced by days of selling.

After Europe closed at 11:30, U.S. stocks mounted a bit of an ostrich rally. (If I can't see it any more, it can't hurt me.)

The ostrich rally took them to what would be the day's highs shortly after noon. Then the ATM rumors began.

The rumormongers and several blog sites claimed that Tuesday evening in Athens, long lines were forming at various bank ATM machines. Soon the blogs were relaying pictures of the lines.

The concern was that this might be the spark or trigger of the feared run on the banks that would signal the final inning of the Euro exit.

At first the ATM stories circulated slowly – more a topic of conversation than a prod to market action.

As it spread over the next two hours, the reaction was more buyers walking away, rather than panicky selling.

That all changed around 2:30. The ATM rumors combined with reports of large bank withdrawals on Monday. Selling began to accelerate.

At almost the same time, a lot of market on close (MOC) sell orders began to show up. In an Expiration week, there are often large MOC flows. The fact that they were predominately sells, added to the pressure on the market. If you thought there'd be heavy selling as the bell was ringing, why not sell now at likely higher prices.

That perception seemed to stimulate the selling even more. The volume began to swell.

Then at 3:30, the bluff was revealed. Suddenly, a string of buy side MOCs showed up. On balance, the bell would now see mild buyers, not sellers. That revelation reversed gears with buyers helping to cut losses a bit.

Was the shift in MOCs a set-up? Was it a trading ploy? We can't tell for sure but it sure was an odd coincidence.

The late flurry of selling in the final 90 minutes swelled volume to the top end of projections. Traders wondered off to marinate and wonder what the ATM story boded for Wednesday morning.

A Diller, A Dollar – Back in 2011, we frequently wrote of the total dominance of the dollar in the movement of stocks and other asset classes. That dominance has returned as the Greek exit crisis boosts the greenback in a massive flight to

safety. The dollar's at a four month high. The Euro's at a four month low. That's sent crude to a five month low, as is gold. Watch the dollar index, DXY, for a possible breakout above 81.50 (hat tip Jim Brown).

Consensus – The Greek election is weeks off but calm could be disrupted by a bank run. No conference, just the will of the people in the streets. Oversold bounce due. Stay very, very nimble.

Trivia Corner

Answer - Tom started with 7 sandwiches. The first bully took half (3.5) plus half a sandwich (.5) which makes 4 in all. Etc., etc.

Today's Question - Jim Thorpe became world famous by winning the Pentathlon in the Olympics in 1912. An equally famous American placed fifth in the same event. Who was it? We know you know his name. (Hint - he was also a great horseman.)

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