On June 29th, we prepared a study explaining why we thought the Greek financial crisis was unlikely to have a severe impact on U.S. financial markets. Greece's relatively small economy and the will of the EU to remain whole lead us to believe that while their debt situation was unsustainable, it was manageable.

We now consider the Chinese financial crisis and find it to be greatly different. China's GDP is second only to the U.S. in the world and their ambitious growth goals have played a large role in meeting global demand over the past few years.

China has long been a concern among economists and political scientists with their attempt to provide more economic advancement for its citizens while continuing to limit political freedom. The Communist central government made a move toward a more market based economy and it has worked well for the country. Their GDP has been growing at a 14% annual rate since President Nixon's visit in 1972.

For developing countries, the importance of trade is difficult to overestimate. An example: England, a lightly populated country with few natural resources, grew to be the leading world power on the back of expanding trade. Such growth, Adam Smith might explain, was closely associated with the benefits of trade, new technologies and culture. It also explains why great metropolitan centers grew up around harbors and transportation centers.

China's trade activities (imports and exports) have flourished, rising about 18% over the past two years versus only 8% growth for the U.S. Still, the problems of centralized government direction remain, and with it, a high probability of sudden policy changes. The work ethic and will of the population are strong and competition from the Chinese dragon will likely be hard to contain in the future.

It appears American markets have fed off of Chinese problems, suggesting relationships which span the oceans. China worries that its economic growth will slow due in good part to a slackening of exports so it has affirmed actions which weaken its currency.

The problems in China have also created instability and volatility in U.S. financial markets. This is evidenced by multi-year lows in U.S. Industrial Production and rapid changes in stock prices. We think it is prudent to reduce this financial instability. To offset this, we believe it is appropriate to temporarily dampen the volatility with somewhat lower equity positions.

We continue to believe undervalued bargain issues, the ones we prefer to buy for our clients, should provide good returns and outperform over the long term.