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U.S. Not Alone - Financial Crisis in Europe, Too

In my email last week, I shared with you the situation facing our economy here at home. And as I write this, there is still no agreement to raise the debt ceiling in Washington. That is certainly discouraging, but not surprising. As we discussed, the political posturing is at an all-time high, with the economic future of our nation hanging in the balance.

Runaway debt - spending more than you take in - is not just a U.S. problem. It's a global concern, with Europe at the center of a worsening financial mess.

For the second time in 14 months, Greece is getting a major bailout to keep it from defaulting on its debts. That won't solve the problem, just delay the inevitable. Another bailout is only like a Band-Aid. Unless Greece undergoes radical changes to restructure its economy and starts paying off its debt, there's only more trouble ahead. As one global economist put it, "A full-scale default is avoided for now."

Why is Greece important? The fact is that most of their debt is on the books of European banks. And when the bottom falls out in Greece, the European banks will be left holding an empty bag. A very large empty bag - hundreds of billions of dollars - gone. And, now there's growing concern about the rising debt in other European nations - Spain, Portugal, Italy, Ireland, even Great Britain. All facing the same kind of economic jeopardy. Debt is a financial killer.

And, consider this: the European banking system is already under tremendous stress. One report suggests that 25% of Europe's banks are at serious risk. One out of four could fail if another economic downturn hits.

Let's not forget that those European banks are tied into our economy as well through investments and other financial commitments. When it goes bad in Europe, Wall Street is at risk. America is not protected from international chaos. America is actually in the middle of it. We are all connected. The U.S. cannot afford to ignore what's happening overseas. We need to pay close attention to what's happening in Europe and learn from their mistakes. And, with countries like China and Japan holding most of U.S. debt, we're no longer in a position of economic strength, like we once were. That is not good.

Consider our currency. The value of the U.S. dollar continues to slide - across the globe. In the last decade, the dollar has lost more than 40% of its value compared to other currencies. From what is outlined above, it would lead you to believe the dollar **should be increasing** in value against the euro. In fact, the opposite is true. The euro has strengthened against the dollar this year alone by six percent. As the value of the dollar declines, so does confidence in the U.S. economy from our global partners.

Don't get me wrong. I'm not trying to paint a doomsday scenario. But the situation is serious. The world is on an unchecked spending spree. As I pointed out last week, there's a solution to all of this. Don't spend what you don't have. Sure, it's not easy. And it may not be politically desirable. But, unless tough decisions are made to reduce debt, cut spending, and live within our means, the financial crisis in this country and abroad will only worsen.

Look for an email update from me in the weeks ahead. We'll attempt to sort through the tea leaves and provide some insight on what we can expect in the markets in next 12 months.

As always, thanks for your trust and confidence in Kapusta Financial Group. Don't hesitate to give us a call with any questions or concerns.

Sincerely,
(GEORGE)