

October 6, 2011

European Concerns

The problems in Europe (Greece in particular) that we outlined in our July and August client correspondence are continuing to develop and play out at an extremely unpredictable pace and manner.

The question of the moment is can Greece be saved from financial collapse? This is as much a political question as it is an economic one. The answer increasingly appears to be “no”. The expanding Euro-zone bailout proposals are fraught with controversies throughout Europe – the main question being asked by the various Euro-zone financial ministers is “why should their governments and citizens continue to pay for the mistakes & poor financial management of Greece”? After all, the bailout money provided to Greece from the Euro-zone nations since 2010 has been over \$152 billion. Greece two days ago announced that it still won’t meet its deficit target for 2011-2012 imposed by the international lenders.

So why does this matter to us, the world’s only economic superpower? You guessed it; the entire global financial system is indeed inescapably interconnected. This is why we are still in the midst of the wild stock market volatility that seems to be a daily occurrence since July. Investment sentiment almost overnight has turned from guardedly optimistic to negative.

The implication of a Greek default can be summarized and simplified into two basic scenarios: The best case – Greece is allowed to exist the Euro-zone (Euro dollar), European banks (that hold most of Greece’s \$500 billion of debt) write down the losses in an orderly manner because other banks from Europe and around the world will help them to recapitalize (loan these banks more money). Bank losses will be mitigated, the contagion doesn’t spread to Italy, Spain & Portugal, stock markets stabilize and the world avoids a double dip recession. The worst case- Greece defaults from the Euro-zone, European banks are forced to write off huge losses on the Greek debt, those banks become financially less stable, so they contract credit by not making loans to businesses and individuals. The stock markets continue to sell off because of the fear that the problems may spread to Italy, Spain & Portugal. Economic growth in Europe comes to a halt and plunges us into another global recession.

The European financial dilemma is extremely fluid. We are continuing to monitor events very closely and we’ll keep you well informed. The uncertainty and volatility may be with us for weeks to come. Yet history has proved to us over and over again one very basic economic truth: The global economy, along with the United States, will persevere and thrive. As we’ve had to say more than once over the last several years, crisis (or in this case the “fear of crisis”) always provides opportunities. We will do our best to identify those investment opportunities as events continue to unfold. Thank you for your continued trust and commitment in our services.

George

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President