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SUMMER 2015

Greece is an economic train wreck! The bad news emanating from the cradle of Western Civilization continues to dominate world news. A global stock index has dropped 2.90% over the past two weeks while the S&P 500 is down 2.03% since June 1st*. In summation, here is what the crisis boils down to: The Greeks have borrowed huge amounts of money from the International Monetary Fund (IMF) and the European Central Bank (ECB). In addition, Governments, Banks, and individuals have purchased a significant amount of Greek Bonds. Over the next three months, the Greeks need to come up with 15 billion Euros (just over $16 billion) to begin repaying these debts. Here's the problem, Greece is broke. The only way it can make these loan payments is to borrow more money from the same creditors. So, what's the big deal? The Greek economy is about the same size as that of the State of Louisiana and represents less than 2% of the Eurozone. A default by Greece would be bad for all of the parties directly involved. For Greece, it would likely mean leaving the Eurozone (perhaps you have seen the signs from Athens on TV that proclaim Grexit) and giving up the economic and financial support of its neighbors. They would no longer use the Euro and most likely go back to the Drachma as their currency. Everybody that loaned the Greeks money over the past years would get stiffed. These same creditors are willing to loan the Greeks more money to stimulate the economy, but as a condition of lending the money, they are demanding cuts in Government spending. Over the 4th of July weekend, the Greek people overwhelmingly voted against increased austerity measures. Both sides have drawn a line in the sand, resulting in a standoff, between creditor and debtor**. It appears that July 20th is the critical date for Greece's future in the Eurozone. On that day, Greece is due to make a 3.5 billion Euro ($3.9 billion) payment to the ECB. In the meantime, the ECB is keeping the Greek Banks on life support. The ECB has turned off the Cash spigot, so the Greek Banks are only allowing customers to withdraw a maximum of 60 Euros, and many customers are unable to get even that tiny amount. If the Greeks default on July 20th, it is expected that the ECB will completely cut off the Greek banks at that point, and then the "fun" really begins***. As you all know, the stock market does not like uncertainty of any kind, and the volatility we have seen over the past weeks is absolute evidence of this. Expect continued volatility until this mess is resolved. As is frequently the case, other than spooking the market and investors, what happens overseas really has no fundamental impact on the US stock market: McDonalds is still going to sell Burgers, Apple is still going to make iphones, Becton Dickinson is still going to make syringes, Medtronic is still going to make testing stuff for diabetics, and Berkshire Hathaway (Warren Buffet) is still going to make boatloads of money. By the time my compliance department approves this newsletter, the Greek crisis very well may be over.

Candy and I visited Greece in 2005 and fell in love with the people, the natural beauty, and the history. The Greek economy was already in the toilet when they joined the Eurozone. For years, the international community has widely believed that the Greek Government has created a population that prefers dependency rather than self-reliance. Hmm ... where have I heard that one that before?

John

* Big charts Historical quotes. June 1, 2015 and July 7, 2015 closing prices
** Daily Wealth Trader. July 6, 2015
*** Stansberry Research, July 6, 2015

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