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"Buying Your Fish from Others…a Greek Morality Tale!"

I lay awake last night pondering the ongoing Greek dilemma while the old adage: "give a man a fish and you'll feed him today, teach a man to fish and he'll eat for a lifetime," kept going through my mind.

It evoked an image of sturdy, young Greeks departing a village pier in small boats, two by two, equipped with little more than a loaf of bread, olives, wine, grappa, a spool of fishing line, and plenty of swagger…then returning at dusk, sunburned, tired, happy, with a catch for their family that left them all dancing by a fire with little thought of the effort required tomorrow to repeat the feast. That quaint, romantic vision may once have been the case, but the world has marched on, and Greeks stopped living in that ancient way long ago. They have become part of a modern era in which, much of the time, others have caught their fish for them, but often been paid with future promises rather than hard currency. Now they want the money they have lent and earned.

In 2014, the Greek economy made up about 2% of the Eurozone: the Eurozone comprised about 16% of the global economy. This means Greece produces less than .22% of the world's economic output, and even a 20%, 30%, 50% decline in their economy would have minimal effect on the global recovery which has been slowly gaining force over the last 6 years. The Greek economic crisis, lingering and stagnant since a rescue package in May of 2010 averted default, must be confronted, but given its magnitude will not derail recovery elsewhere. By way of contrast, the Russian financial crisis of 1998 was a much larger event, in an economy having a significantly larger effect on the world, and which resulted in a severe, temporary disruption. However, Russia bounced back with surprising speed as did global markets.

Greece joined the Eurozone in 2000 through deceptive means. The country was required to keep its annual deficit to 3% of GDP, but has not managed to do so once since entering the union. Additionally, their debt to GDP ratio has consistently exceeded allowed limits. They did this, at least in part, by utilizing derivative "swap" agreements constructed by Goldman Sachs and JP Morgan to hide borrowing. European creditors have now determined that Greece must face up to the consequences of this past.

The immediate issue is the repayment of 1.6 billion Euros due July 5th. However, total Greek debt equals about 280 billion Euros, with 22.5 billion of that due in 2015, so current negotiations are really designed to buy time with emergency funding in order to tackle the larger issue. Greeks have withdrawn billions from the banking system over the last several weeks which is why ATM's will no longer release more than 60 Euros per day, and banks have been closed until July 7th.

While repayment may not be easy, it is possible, particularly given the fact that creditors are willing to compromise, but require evidence that future behavior will be compliant with Eurozone regulations related to the level of the Greek deficit, and debt, as a percentage of GDP, and a tightening of tax collection given the history of Greek tax evasion. This will require raising taxes on income and services, in addition to ensuring compliance.

In the meantime, the case for recovery in the US gains steam, and the flight to safety trade has once again been to the US $ and US treasuries. (Past commentaries are on our website under "Terry's Market Perspective"). That won't necessarily be the case 3-5 years from now since Europe will survive this morality tale, continue to stabilize, and recover, as has happened for time immemorial. While we have made some minor adjustments to portfolio's over the last several weeks, it hasn't involved a significant change in our investment outlook, rather it has been an adjustment in security selection as we have found some new ideas that we believe provide greater return potential than some of our past holdings.

We stand firm in our conviction that, once the Greek issue has been put to bed, we will see a resumption of the bull market that began in the Spring of 2009, and that equities are a much safer place to be than bonds which will surely be affected by a rising interest rate environment.

Please feel free to call or email with questions or comments.

Best regards,

Terry