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Greece is the Word

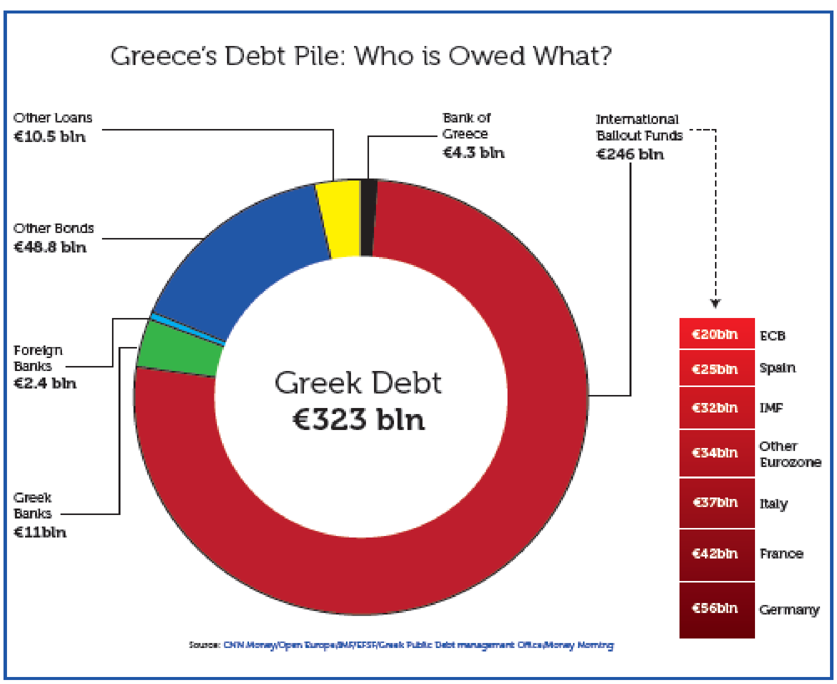
"This is the life of illusion, wrapped up in trouble, laced with confusion. What are we doing here?" – Barry Gibb

The title and above quotation are lines from the song "Grease", performed by John Travolta and Olivia Newton John, in the 1978 movie of the same name. The plot of the movie revolves around two people from completely different backgrounds coming together, after some strife, each making compromises to the other. If only.

The European Union (EU). What an ambitious idea. That countries with different languages, cultures, and economies could come together to forge a strong alliance for the benefit of all (OK, Germany). It all started out well, with each country dressed up in their best duds, displaying their best manners, getting along with the parents. But it quickly came undone as countries began to reveal their true nature soon after going steady.

First, some context. Greece's Gross Domestic Product (GDP) for 2014 was estimated at $240 billion (roughly the same as the GDP of the Miami/Ft. Lauderdale area). Their current unemployment rate is 26%, but 50% for those unfortunate enough to have been born between 15 and 24 years ago (EU average unemployment rate is 11.5%). Since 1974, public sector job creation has increased four times faster than the private sector (let that one sink in for a moment).

Now let's take a look at Greece's current debt.



Note the amount of red on the chart. This represents the amount of debt that has been transferred to the residents of various countries in the Eurozone. The private sector holds a total of 17% of outstanding debt, while the poor sucker citizens of the EU hold 62% (Other People's Money is way easier to spend).

How did Greece get here? As a country, Greece has spent more than it has taken in for as long as most people can recall. It violated the covenants set out by the EU almost from the start. But, it was a small country, with a GDP representing .38% of the world's economy. What could possibly go wrong?

The current Prime Minister of Greece, Alexis Tsipras, backed by his former Finance Minister, Yanis Varoufakis (he resigned July 6th) has talked tough about accepting the terms that the EU has proposed. Tsipras took the issue to the people of Greece over the weekend in the form of a referendum. In a resounding vote, 61% of Greek citizens rejected the notion that had been proposed by its creditors to cut public pensions and increase taxes (duh).

So who cares? With an economy that barely registers a ping on the world's sonar, why does Greece matter? Because of countries right behind it. Portugal, Spain, France and Ireland are watching events closely. Greece has threatened to leave the EU, which probably would be tantamount to economic Hara-kiri. This is more bluster than reality, but buttressed by the weekend vote, Tsipras is still talking tough. An exit from the EU and the Euro might give other countries the courage (chutzpah) to do the same.

If the EU were to let Greece off the hook by writing down the debt, the aforementioned countries (that also have significant debt to the EU) would be asking the logical question – what about us? This would be a very dangerous precedent to set, both for those holding the debts of these other countries, and for the future success of the union. With 18 countries comprising the EU, it only takes a few malcontents to significantly disrupt the economic order of things.

Greece will not be able to pay off its accumulated debt. The EU cannot afford to appear to bend to a country that has flaunted its extravagance in the face of the other members of the union. A classic Kobayashi Maru scenario (for non-"Trekkies", a no-win scenario).

How this plays out is anybody's guess. I believe that the EU (OK, Germany) will do what is necessary to keep the union intact. It will most certainly be hoping for some "Alien Baby" headlines to knock this story off the front page. Short of that, it will be a tortured mess, played out in slow motion, with neither side appearing to budge publicly. Behind closed doors, however, all parties have a lot to lose and there will be a resolution (using Other People's Money).

In the meantime it means more uncertainty and volatility in both the stock and bond markets both foreign and domestic. Greece is a cautionary tale with some valuable lessons to be learned. There needs to be a balance between the public and private sectors. All spending is not good spending. And, just because you can borrow money doesn't mean you should. I hope Congress and our President are paying attention.

One bright spot is that when this crisis passes we won't be continuously subjected to the portmanteaus of late, like: Grexit, Greferendum, Gremaggedon, Grexodus. It's all rather Grexhausting (hold on, I kind of like this game).

Will

P.S. Enclosed is a new look statement. You'll find all of the information that was contained in the old version presented in a slightly different fashion. We have upgraded our portfolio management and reporting software allowing us to further customize our statements. It will also allow for additional internet access that we will be rolling out later this year. Please feel free to share any comments you have on the new look. We created the old statements from client input and welcome your feedback as we fine tune this one.