GLOBAL FINANCIAL
Private Capital
COMPREHENSIVE WEALTH MANAGEMENT

Thought for the Week: Monday, June 27th, 2011

What Happens in Greece Stays in Greece – Right?

Throughout the Greek debt crisis, we have consistently played down the long-term economic effect of Greece while buying or ignoring the periodic short-term market price drops their financial woes have caused.

That said, **we have not participated in the purchase of securities with a direct relationship to the Greek or Euro debt issues**. We are not making bets on the crisis, but we have taken U.S.-based positions in the belief that U.S. markets are overblowing the crisis.

We do not think Greece will bring the world economy to its knees, but **there are causes for concern outside of the DIAS portfolios**.

The Greek Numbers

At $469.8 billion, their total debt is approximately 150% of Gross Domestic Product. Their **deficit last year was $34.5 billion, approaching 11% of GDP.** These figures are very high, especially when you factor in their growth. The deficit is the most important factor and the issue that needs immediate action

However, as a percentage of the total European debt and GDP, they are small.

Imagine a sovereign merger between Germany and Greece, along the lines of East and West Germany unification. The **German deficit would climb from a projected 2.5% to 2.8% if the Greek deficit were added** to the German deficit.

The Eurozone has issues and is spending beyond its means, but **'The Can' can be kicked down the street some ways yet**.

A few popular Greek Myths

Greece is bankrupt and must Default?

Greek debt and default is all about political intent not economic reality. It is easy to pronounce Greece bankrupt on the hard numbers, but the Government and their sovereign neighbors have adequate resources and powers to rectify the situation – if they wish.

Sovereign debt is highly rated because countries own significant assets and revenue raising abilities.

For example, as I sit in the heart of Europe writing this Thought, I can virtually see the postage stamp of a principality called Monaco. All Monaco possesses is the ability to generate revenue. They do this so well, they can forgo most of their tax raising powers.

The bottom line on **Greece is a two part political drama: Can the Greek government stomach the recovery medicine and can the Eurozone allow one of its members to leave the party?**

This commentary is not intended as investment advice or an investment recommendation it is solely the opinion of our investment managers at the time of writing. Nothing in this commentary should be construed as a solicitation to buy or sell securities. Past performance is no indication of future performance. Liquid securities, such as those held in DIAS portfolios, can fall in value. Global Financial Private Capital is an SEC Registered Investment Adviser.

Greece and the Euro Crisis are all about Sovereign Debt & Deficit?

Yes, this is the surface of the problem; however, **the deeper issue is the European banking system**. The world runs on credit; credit is controlled by supply, demand and pricing (the yield a bond issuer must pay to sell a bond). **The European Community isn't too worried about Greece; it's more worried about preventing a banking system collapse!**

A Greek default could be a Lehman-like event; **credit supply could dry up and the cost of borrowing may rise sharply**. This would be a crisis of such unpredictability and just like in 2008, the banking system would require vast amounts of new capital. Economic growth would reverse and we really could be faced with a 'Perfect Economic Storm'.

Greece will not be allowed to create the spark that causes this fire, in our opinion. **Euro Governments can kick the can down the road for some time to come**.

Is this a solution? – clearly not! However, the financial gurus of Europe are busy crunching numbers and holding meetings aimed at improving the financial condition of the other questionable countries. **It's hard to see a Greek default being allowed when the other PIIGS are susceptible to their own swine flu!**

The Euro is Dead?

As with many partnerships, when trouble comes along, dissolution is the obvious option. But given the relative sizes of the PIIGS debt and deficit relative to the larger countries such as Germany, France and Italy, **closer integration may be a remedy**.

Again, political ambition is the main plot in this drama. **Don't let the numbers distract you from the politics.**

Three Degrees of Separation

So, Greece will continue to be a thorn and may cause periodic market volatility, but it is of no concern to investors unless Germany and France decide Europe is strong enough to weather Greek default?

Unfortunately, this is not the situation. While **the biggest U.S. money market funds** have minimal direct holdings of Greek government debt, they do **hold approximately $1 trillion of debt issued by the big European banks**. These banks have large exposure to Greek default and could suffer large losses if such an event were to occur.

The five largest U.S. money funds are holding, on average, about 40% of their assets in the short-term debt of several European banks. Last week ratings agency **Fitch stated that about half of the assets of the top 10 money funds are invested in European bank debt.**

Fed Chairman Ben Bernanke even commented on this in his press conference on Wednesday. Even more worrying, the House Committee on Financial Services is meeting to discuss the "Financial Stability of Mutual Funds" in light of the crisis.

So here's the 'three degrees of separation' concern at the moment:

Greek debt = European Banks = US Money Market Funds

This commentary is not intended as investment advice or an investment recommendation it is solely the opinion of our investment managers at the time of writing. Nothing in this commentary should be construed as a solicitation to buy or sell securities. Past performance is no indication of future performance. Liquid securities, such as those held in DIAS portfolios, can fall in value. Global Financial Private Capital is an SEC Registered Investment Adviser.

GLOBAL FINANCIAL
Private Capital
COMPREHENSIVE WEALTH MANAGEMENT

Money Funds are a low risk investment, but for those of us who remember the "Breaking of the Buck" money fund crisis of 2008, their exposure to European banks **may not justify their low returns**.

In a move which **underlines the value of Global Financial's "Client Full Disclosure" principles**, the SEC is issuing rules which will require Money Market Funds to release the actual market values of their holdings, not the nominal $1 price at which the shares are bought and sold.

It remains a fervent hope of ours that these rules will be adopted as another step along the road to making large broker dealers fully, clearly and concisely disclose all their holdings, commissions and potential conflicts of interest to their clients.

This commentary is not intended as investment advice or an investment recommendation it is solely the opinion of our investment managers at the time of writing. Nothing in this commentary should be construed as a solicitation to buy or sell securities. Past performance is no indication of future performance. Liquid securities, such as those held in DIAS portfolios, can fall in value. Global Financial Private Capital is an SEC Registered Investment Adviser.