HOW DOES GREECE IMPACT ME?

Is it all negative, or are there opportunities to consider because of the crisis?

Presented by Benedict A. Mitchell Jr.

Many economists think a Greek default is inevitable. As we enter 4Q 2011, Greece has a debt-to-GDP ratio of about 160% (and that percentage is rising). While Greece accounts for less than 3% of Eurozone GDP, ripples from a Greek default could strain the European banking sector and global financial markets.[1,7]

Struggling for the best worst-case scenario. Greece is redoing its financial system, but it is still facing one of five potential (and painful) outcomes.

1. **Greece renegotiates its debts & forces its lenders into write-offs.** Many Greek banks are nationalized; Greece endures a long recession.
2. **Greece can't renegotiate its debts.** It sinks into a multi-year depression exacerbated by additional austerity measures.
3. **Greece rejects further austerity cuts recommended by the EU.** A standoff with the International Monetary Fund and European Central Bank results; the ECB and IMF blink and continue bailout payments to Greece; Italy and Spain see the way Greece made the ECB and IMF cave in and later wrestle the ECB and IMF into submission in the same way; Germany gets frustrated with all this and ditches the euro.
4. **Greece rejects more austerity cuts & the EU stops bailout payments.** Civil unrest jeopardizes the country. Its banks close; its public services halt. The CIA has advised that a coup may occur in Greece in such a scenario.
5. **Greece lapses into a banking/cash flow crisis & leaves the euro.** This is the "doomsday" scenario. Assume #4 occurs with Greece also electing to go back to the drachma. That could mean a run on Greek banks, and then Spanish and Italian banks. A return to the drachma could mean frozen borrowing for Italy and Spain and possibly lead to insolvency for major banks in Europe. Picture 17 nations trying to agree on and quickly implement an EU version of TARP. Havoc could result for stocks and the global economy.[2]

This all sounds very gloomy, but prospects may emerge from the gloom.

A(nother) golden opportunity? In the event Greece defaults, the search for safe havens could mean a quick flight to gold. If a Greek bailout succeeds, there may still be fiscal instability among EU members, and presumably an easy monetary policy fostering loose credit. If Greece defaults, then you could see big drops in the spot prices of currencies plus some competitive devaluation. All of this could make gold look very, very good.

On the other hand, if true systemic risk hits global markets, investment banks and hedge funds might need capital fast – and gold is easily liquidated. So a gold selloff could also possibly occur if the situation becomes dire.

What about Treasuries & the dollar? Treasuries remain popular, and demand for them could jump after a Greek default. What other choices do central banks have if they want to shop around for a stable, readily available, reasonably liquid investment? The euro is hardly a rival to the greenback right now.

How about emerging markets? Here is another option. The BRICs and some of the other emerging-market nations have managed to ride out the recent volatility fairly well – there has been some "decoupling", if you will.[8] No one is saying these markets would be immune from a continental banking crisis or a flight from stocks, but you have to concede that emerging markets have the capability for independent behavior.

Would it still be worthwhile to own blue chips? Keep in mind that the Dow did not fall to 4,000 after the Lehman Bros. and Washington Mutual failures and the initial rejection of TARP by Congress. Stocks did pull out of that plunge, and spectacularly so; bargains abounded, for that matter. So it might certainly be worthwhile to hold onto stocks in the coming months, especially as some European governments have hinted at possible capital injections for banks if the need arises. On September 13, German chancellor Angela Merkel noted that the EU would not let Greece fall into "uncontrolled insolvency" and reports surfaced of China getting ready to purchase Greek debt. Treasury Secretary Timothy Geithner even got involved in the search for solutions in mid-September.[3]

Europe's biggest private lenders may be deemed "too big to fail" by the EU and ECB, and if unwinding of any financial institutions is needed, the authorities should do everything within their reach to try and make it gradual.

It could be that Wall Street has already priced in a Greek default and will just wince, not stumble, at its confirmation – assuming the news arrives with more inevitability than frenzy.

The biggest fear of all: contagion. Italy and Spain may be "too big to fail" in the eyes of the EU and IMF, but they also face big debt problems. Standard & Poor's cut Italy's credit rating to 'A' in September; Moody's Investors Service is weighing downgrades for Italy and Spain before November.[4,5]

How diversified are you? These debt issues in Europe may linger for years. With the market so volatile, don't forget the wisdom of having a diversely allocated portfolio.

Benedict A. Mitchell Jr. is a registered representative of and offers securities through Kovack Securities, Inc., member FINRA / SIPC. Advisory services offered through Kovack Advisors, Inc., a Registered Investment Advisor. 4101 Ravenswood Rd. Ste.310, Ft. Lauderdale, FL., 33312. Tel: (888) 236-9894 Ext 1. Florida Benefit Specialists is unaffiliated with Kovack Securities, Inc. and Kovack Advisors, Inc.

relied on for the purpose of avoiding any Federal tax penalty. All indices are unmanaged and are not illustrative of any particular investment. The Dow Jones Industrial Average is a price-weighted average of 30 significant stocks traded on the NYSE and the NASDAQ.

Citations.

1 - business.financialpost.com/2011/09/21/preparations-for-greek-default-gathering-steam/ [9/21/11]
2 - bbc.co.uk/news/business-14977728 [9/21/11]
3 - thestreet.com/story/11246102/1/stock-futures-sept-13.html [9/13/11]
4 - nytimes.com/2010/01/29/business/global/29bailout.html [1/29/10]
5 - businessweek.com/news/2011-09-20/italy-credit-rating-cut-by-s-p-as-crisis-contagion-spreads.html [9/20/11]
6 - montoyaregistry.com/Financial-Market.aspx?financial-market=advanced-estate-planning&category=30 [9/21/11]
7 - siteresources.worldbank.org/DATASTATISTICS/Resources/GDP.pdf [6/1/11]
8 - firstpost.com/economy/asian-markets-eye-china-data-for-signs-of-decoupling-66749.html [8/23/11]