



Grexit?

By Michelle Mabry, CFP, AIF

July 6, 2015

A while back I attended a conference where a young Irish economist spoke regarding the then initial concern over the Greek economy. He said “The Germans remind me of the lads from the movie *Hangover*. They woke up one morning and realized that they were sleeping with the Greeks,

the Spanish and the Irish,”

Since that time, the situation has gone from bad to worse. Yesterday the Greek voters were asked, once again, if they would accept the additional austerity measures demanded by their creditors including the European Central Bank, the IMF (International Monetary Fund) and the European Commission. And they voted a definitive “NO” (61% to 39%) to the demands of their creditors and moved the country closer to a “Grexit” from the Euro currency.

We don’t believe that their choice was that hard to make. Virtually all of the \$264 billion that has been loaned to the Greek government has actually been paid to the European banks who unwisely loaded up on Greek debt before 2008. This kept the European banking system afloat during the crisis and none of that money has actually gone back into the ailing Greek economy.

The Greek government, following many of the demanded austerity measures, has actually reached a budget surplus - except, of course, for debt repayments. However, this has not come without cost. Unemployment has reached over 25%, including 60% of young workers. They are in a steep recession which is likely to get only steeper. The Greek economy has shrunk by 25% over the past five years.

So, lets look at what it might look like if the Greeks move from the euro back to the drachma. Anticipating this change, the Greeks have staged the “mother of all bank runs”, trying to get as many euros out of the system as they can before they are exchanged for lesser-value drachmas. Banks are likely to run out of money as early as today even though the government has limited the amount of money that that can be withdrawn to around \$67 per day. Banks are closed and withdrawals are made from ATM’s but reopening the banks will be a problem as they don’t have as many euros as depositors have put into them.

Will the European Central Bank step in and provide guarantees and financial support to keep the banks from collapsing and taking the Greek economy down with them? And will the Germans agree at this point?

Will the Greeks actually leave the Eurozone? We don't know quite yet but the vote indicates to us that the citizens of Greece have had enough European (actually German) control over their economy and politics. There are people in other European countries who also feel the same way about losing control over their own affairs and are, thus, watching closely to see how the European Union responds.

This could be tricky. If the European Union offers further concessions, then you can expect Spain to ask for less stringent austerity and some time to get their economy going again. Portugal may well be next.

Of course, if Greece exits, and experiences economic growth, then those in other countries could demand that their leaders also cast off the oversight from the European Central Bank.

So what next? Greece is already technically in default as of Tuesday on \$1.7 billion in payments. At the end of this month, it will owe the next payment in the amount of just under \$4 billion. The European Union may, led by Germany, reluctantly allow Greece to extend its payments, and put together some kind of aid package for the Greek economy to help facilitate it's making payments in the future.

So, what does this mean to you? Once again, you're going to see turmoil in the markets and a temporary decline in the value of the euro on international markets. You will hear the "talking heads" and economists speculate about the "fate of the Eurozone", and eventually, one way or another, everything will settle down again without affecting in any way the underlying value of the stocks you own. We've all seen this crisis a few times before, and each time the predictions of some form of doom haven't come true.

Our clients will be comforted to remember that their exposure to equities (the asset class that reacts with the most volatility to these types of situations) is limited to what is necessary to achieve their personal goals and objectives. In addition, they hold a substantial amount of non-correlated assets that have in the past proven to rise and protect in an environment where equities are volatile to the downside.

This "crisis" is very real to the Greek people, but the world will go on no matter how it's resolved.

Sources:

<http://finance.yahoo.com/news/greece-says-oxi-heres-happens-180726938.html>

http://www.nytimes.com/interactive/2015/business/international/greece-debt-crisis-euro.html?_r=0

<http://www.nytimes.com/2015/07/06/business/international/eurozone-central-bank-now-controls-destiny-of-greeces-battered-banks.html?rref=business/international&module=Ribbon&version=context®ion=Header&action=click&contentCollection=International%20Business&pgtype=Multimedia>

<http://www.nytimes.com/2015/07/06/business/international/eurozone-central-bank-now-controls-destiny-of-greeces-battered-banks.html?rref=business>

[international&module=Ribbon&version=context®ion=Header&action=click&contentCollection=International%20Business&pgtype=Multimedia](#)