Tarheel Advisors Newsletter

Volume 3, Issue 3

July 2011

My Big Fat Greek Debt Problem

Many investors may be wondering lately why a small nation over in Europe is having such a large effect on their portfolio. After all, didn't we deal with this same possibility of Greek default back in August of 2010, and didn't that come out alright?

The short answer is yes, the European Central Bank (ECB) successfully kicked the can down the road last August and here we are discussing it again 9 months later.

What's the big deal if Greece pseudo-defaults on their loans, or faces some severe austerity measures and budget cutbacks? The GDP of Greece is just $300 Billion and equal to only about 2% of the $14.6 Trillion output of the U.S. economy. How big a deal could it really be?

Unfortunately, it is a big deal, and in this global economy, the problem is not just Greece, but the resulting contagion. The default of a sovereign nation would greatly affect everyone. In my opinion, Greece is just the tip of the European debt iceberg. If Greece is allowed to fail, like Lehman Brothers, Bear Stearns, etc., you will see the fear factor ramp up and other nations that are teetering close to the brink start to tip as well. Ireland, Portugal, and even Spain and Italy are at real risk in the event of a Greek default as they are seen as in the next worst shape. The ECB and the economies and citizens of Germany and France will likely reach a point in the near future when they decide to stop throwing good money after bad money. Without those two powerhouses, the ECB and the European Monetary Union are in big trouble. What you are potentially looking at in that scenario is the dissolution of the Euro and back to individual national currencies.

Now, that may not be all bad. Then, Greece could restructure its debt in Drachmas instead of Euros and then (in theory) print a boat load of new money to devalue their currency and make it easier to pay off their debt. This strategy does not come without consequences. For instance, the Weimar Republic formed in Germany after World War I tried a similar approach and ended up with extraordinary hyper-inflation making deutschmarks little more than wallpaper.

How do Greece and Europe get out of this mess? Windex?? I wish there was a simple answer like in the movie, but there is not. If I were a betting man, I'd say that politicians in Europe will try their best as usual to string out the crisis as long as possible by loaning Greece more money to meet their debt rollover needs. At this point, Greece looks to need about $50-70 Billion more by the end of July to meet its obligations, and then who knows how much more by next year. The real problem is not just how much money Greece owes, but the structural trade imbalance they face. Throwing money at it is just not going to fix it. I think economist John Mauldin put it best in one of his recent newsletters: "giving Greece more money is akin to trying to help someone who is drunk by giving them another bottle of whiskey."

So, uncertainty with Greece marches on and another potential black swan type event makes an appearance in the USA. Let's hope that our congressmen and women have good enough sense to not let the debt ceiling debate drag on until the last second. If there is one investing axiom above all that I have come to trust, it is that "the Market does not like uncertainty." So, if you feel like you dodged a short-term bullet in Greece, hold on for an August 2nd National debt showdown. If the chart to the right of the S&P500 in 2011 is any indication, watch for increased volatility and severe (the S&P was up almost 6% in the last week of June) price swings in both directions for the next 5 weeks. After that, hopefully we can settle in to trading on old-fashioned value and fundamentals.

-Walter Hinson, CFP®

2011 Market Update

S&P 500	**+6.02%**
DOW	**+8.59%**
NASDAQ	**+4.55%**
MSCI World	**-1.65%**

Mortgage Rates

15-Year	**3.875%**
30-Year	**4.75%**
5/1 ARM	**3.125%**

Did You Know?

Starting on January 1, 2011 brokerage firms are now required to keep and send cost basis information on equity securities to the IRS. In the past you have been on your own to match purchases and sales. But now, and phased in through 2013, brokerage firms will take over this duty.

No, this is not a roller coaster - it is a chart of the S&P 500 for 2011.

Designation Alphabet Soup

CFA, CFP, CPA, CRPC, HUH!??? If you've ever looked at the business card of a professional in the financial services industry you've probably noticed the ample supply of different acronyms following names. According to www.wiseradvisor.com/designations.asp there are over 100 different designations related to the practices of accounting, investment management, insurance, and estate planning. So if you find yourself confused about all these letters, you probably should be. Over the past decade a plethora of "professional" designations have sprung up, most of which are designed for little more than confusing the public. Touching on all of these designations is far beyond the scope of this article, so let's concentrate on the requirements of the most commonly seen designations in the industry.

The "Good" - There are several keys to any good designation. First is the education component; a bachelors or masters degree requirement is preferable. Additionally, a good designation requires significant specialized course work above and beyond a typical college degree. Second, comprehensive testing is important in proving which individuals have a full understanding of their profession. Many designation tests only have 50% passing rates insuring only the most qualified pass. Third, experience needed to hold a designation is also important because it proves a professional has both classroom and real world experience. Finally, most of the good designations have an ethics component involved in their practice that typically requires some form of fiduciary responsibility to the client. What this means is that an advisor is legally responsible to act in a client's best interest in all situations and there is legal recourse if they do not.

The "Not So Good" Unfortunately this group of designations has ballooned over the past decade. Many designations prove little more than someone had two hours available to sit for an online exam. Currently the most abused title in the financial industry is that of Financial Advisor. There is actually no education, licensing, or legal requirement for one to refer to themselves as a Financial Advisor.

So, do any of these designations really matter? Not always. There are plenty of good advisors with no designations and vice versa. However, if you're shopping for professional help you're going to significantly increase your chances of finding qualified advice by sticking to advisors with designations relevant to the help you need.

-Ryan Glover, CFP®

Designation	Specialty	College Level Classes	Comp. Test	Experience Required	College Degree Required
The "Good"					
CFA—Chartered Financial Analyst	Investments	2 Years	Yes	3 Years	Bachelor
CFP—Certified Financial Planner	Comprehensive Planning	1 Year	Yes	3 Years	Bachelor
CLU—Chartered Life Underwriter	Insurance	1 Year	No	3 Years	Bachelor
CPA– Certified Public Accountant	Taxes & Accounting	1 Year	Yes	1 Year	Bachelor
JD—Juris Doctorate	Estate Planning	3 Years	Yes	1 Year	Masters
The "Not So Good"					
CRPC-Certified Retirement Planning Counselor	Retirement Planning	2 Weeks	No	None	None
CIMA—Certified Investment Management Analyst	Investments	2 Weeks	No	3 Years	None
FA- Financial Advisor	None	None	None	None	None

Tech Review Charles Schwab and a few other banks have recently rolled out a new service allowing customers to deposit funds remotely via their smartphones. The application is currently available on the iPhone and Android platforms and works by taking a picture of a check via the phone's camera. The check image is then sent securely to Schwab and deposited the same as a physical check. The service takes three days for initial setup.

Our Advisors

Cary, NC
Walter Hinson, CFP®
walter_hinson@tarheeladvisors.com
(919) 439-0383

Greensboro, NC
Ryan Glover, CFP®
ryan_glover@tarheeladvisors.com
(336) 510-7255