
The Greece Problem Explained

Weekly Update – June 15, 2015



Markets ended last week mixed, falling on Friday as concerns about the debt impasse in Greece outweighed upbeat domestic data. For the week, the S&P 500 gained 0.06%, the Dow grew 0.28%, and the NASDAQ fell 0.34%.¹

So, what's going on in Greece? For weeks, Greek leaders have been deadlocked in negotiations with creditors over the latest round of debt relief for the troubled country. Greece can't pay its bills and is locked out of traditional credit markets because of its bad economic state. To keep the lights on and the country running, Greece has been relying on financial support from the Eurozone and International Monetary Fund since 2010.² In exchange for the financial support, creditors instituted a set of austerity reforms and budget cuts designed to get Greece on sounder financial footing.

These cuts have been widely hated by Greeks, and a new government was elected in January that promised to tear up the credit agreements and end austerity measures. Since then, creditors have refused to lend Greece more money until they agree to reinstate reforms.

Why won't Greece give in to the creditors' demands?

Greece refuses to reinstate austerity measures because they are blamed for shrinking the economy by 21% and driving unemployment to 25% (50% among young workers).³ The current government would violate campaign promises if it agreed to proposed cuts to the pension system or raised taxes. Greek negotiators have asked for forgiveness of a big slice of previous loans, additional credit that's not tied to austerity measures, as well as access to other sources of funds.⁴ Will they get all these things? Probably not.

Why won't Greece's creditors end the call for austerity measures?

Currently, Greece owes nearly twice its annual economic production in debt. Creditors want to institute spending cuts and tax increases to reduce its debts. Though they might be willing to restructure Greece's debts in future negotiations, they don't want to embolden populists in other countries by caving to Greek demands. They are taking a hard line in negotiations because they believe that the Eurozone is in better shape to handle a Greek default.

What will happen if talks fail?

It's hard to know for certain how this game of chicken will play out. If negotiators fail to come to an agreement by the end of the month, the credit deal will expire and Greece will default on its debts (though it may use some extension provisions to avoid a formal default).

The risk that everyone's worried about is that of a Greek exit from the Eurozone, or "Grexit." Since the European Union's inception, no country has left the currency or political union. The current situation will help define the future of the EU. Economists and EU leaders are worried about questions like:

- Can the EU survive the exit of a member country?
- Would Greece abandon the Euro but remain in the EU?
- Would a Grexit open the door for other countries to leave?

For U.S. investors, problems in Europe would be felt in U.S. exports (since Europe is a major trading partner), international exposure in portfolios, and as another factor in global economic growth. Right now, the U.S. economy appears to be doing well, so it's unlikely that economic contagion would spread. Though financial markets would likely react badly to a Grexit, we can hope that positive domestic fundamentals would bring investor sentiment back. Though we can't predict market movements, we're watching the situation closely and will let you know if we feel any prudent adjustments need to be made.

This week, investors will be closely watching the Federal Open Market Committee meeting on Tuesday and Wednesday for clues about the Fed's next steps. Realistically, Wednesday's announcement will probably reiterate the Fed's wait-and-see approach to the economy. We'll keep you updated.⁵

ECONOMIC CALENDAR:

Monday: Empire State Mfg. Survey, Industrial Production, Housing Market Index

Tuesday: Housing Starts

Wednesday: EIA Petroleum Status Report, FOMC Meeting Announcement, FOMC Forecasts, **Fed Chair Press Conference 2:30pm ET**

Thursday: Consumer Price Index, Jobless Claims, Philadelphia Fed Business Outlook Survey

Data as of 6/12/2015	1-Week	Since 1/1/15	1-Year	5-Year	10-Year
Standard & Poor's 500	0.06%	1.71%	8.50%	18.37%	7.48%
DOW	0.28%	0.43%	6.96%	15.06%	7.03%
NASDAQ	-0.34%	6.65%	17.53%	25.03%	14.48%
U.S. Corporate Bond Index	-0.05%	-2.60%	-1.68%	1.60%	0.91%
International	1.33%	6.52%	-4.12%	6.77%	2.59%
Data as 6/12/2015					
Treasury Yields (CMT)	0.01%	0.10%	0.28%	1.75%	2.39%

Notes: All index returns exclude reinvested dividends, and the 5-year and 10-year returns are annualized. Sources: Yahoo! Finance and Treasury.gov. International performance is represented by the MSCI EAFE Index. Corporate bond performance is represented by the DJCBP. Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly.

HEADLINES:

Oil prices drop as Saudis get ready to produce. International oil prices fell again Friday on supply worries after major oil producer Saudi Arabia announced a potential deal to increase supplies to India. Higher global oil inventory could reignite worries of a supply glut.⁶

Consumer sentiment jumps in June. A strengthening job market spurred American confidence in the economy, driving up a measure of consumer sentiment. This data suggests that the stage is set for stronger growth this quarter.⁷

Job openings hit 14-year high in April. The number of open positions climbed by the most since 2000, indicating that the labor market continues to gain ground.⁸

Retail sales jump in May. In another positive sign for the economy, retail sales surged by 1.2% in May as Americans increased their purchases of automobiles, furniture, and other big-ticket items.⁹



“A great leader never sets himself above his followers except in carrying responsibilities.”

– Jules Ormont

Steak Fajitas



Bring this favorite restaurant dish home for an easy weeknight dinner.

Serves 4

Ingredients:

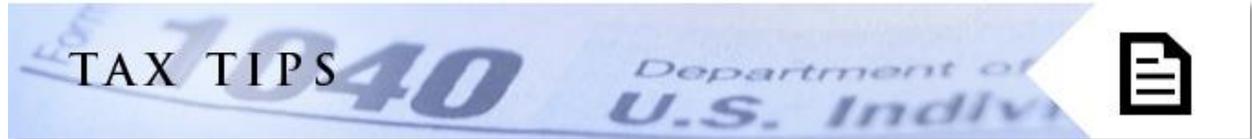
- 1 pound flank steak, thinly sliced against the grain
- 1 sweet onion, thinly sliced
- 2 red, orange, or yellow bell peppers, seeded and thinly sliced
- 1 jalapeno, seeded and thinly sliced (omit for a less spicy version)
- 1 teaspoon chili powder
- Juice from one fresh lime
- 1 teaspoon hot sauce
- Kosher salt
- 4 teaspoons olive oil
- 8 8-inch flour tortillas, warmed
- Fresh salsa (optional)
- Sour cream (optional)

Directions:

1. Take a look at your flank steak and find the grain of the meat. Slice the steak against the grain to make this chewy cut more tender.
2. Combine the meat, peppers, onion, lime juice, and chili powder with one teaspoon of oil and a pinch of salt. Mix thoroughly to coat.
3. Heat a heavy skillet or grill pan over medium heat. Heat the remaining oil in the pan and turn the heat up to medium high.
4. Cook the fajita mixture in batches until the steak is cooked through and the vegetables are tender. Don't stir the pan too much to allow it to brown for more flavor.

5. Serve with the warmed tortillas, topped with salsa and sour cream.

Recipe adapted from Sara Quessenberry | RealSimple.com¹⁰



Avoid Summertime Scams

Many people go away for vacation or make more frequent purchases, making summer a prime time for scammer and identity thieves. Here are some tips to help you avoid becoming a victim this summer:

- **Identity theft:** If you're going away for vacation and leaving your house unoccupied, ask a trusted friend or neighbor to pick up your mail. Identity thieves often target mailboxes for sensitive information that they can use to steal your identity.
- **Tax scams:** Fraudsters may call you or send you an email claiming that you owe the IRS money. If you receive a suspicious call or email, even if your caller ID says it's from the IRS, do not respond or send money. Contact the IRS at 800-829-1040 to verify any details.
- **Fake family distress:** If you receive an email or social media message from a family member asking for money, contact other relatives to be sure that the message is legitimate. Scammers who gain access to personal accounts may attempt to get money from friends and relatives in the user's list of contacts. Never send money by Western Union or prepaid debit card to an unknown source.

Tip courtesy of IRS.gov¹¹



Putt Using Your Core

A lot of amateur golfers believe that their putt is controlled by their shoulders, hands, or arms. Instead, the best place to focus is in your core. An increasing number of tour golfers are moving to belly putters to fully engage their cores for a smooth putt. You can incorporate these skills in your game with a regular putter.

Start by tightening your core muscles and imagine that they are powering your putting stroke. Practice your strokes on the putting green with your core, which should give you a much more consistent, smooth putt like you see with professional golfers.

Tip courtesy of Zach Allen, PGA| Golf Tips Mag¹²



Some Heartburn Drugs Linked To Higher Heart Attack Risks

A recent Stanford study using advanced computer techniques to mine information from nearly 3 million patients found that those that used proton pump inhibitors (PPIs) had an increased risk of a heart attack. The higher risk was seen in patients of all ages, including those under age 45.

Researchers caution that the relationship is not yet well understood and should not give undue cause for alarm. However, if you are already at a higher risk of heart attacks and use PPI heart-burn drugs, it's a good idea to speak to your doctor about your personal situation.

Tip courtesy of AARP¹³



Change Your TV Settings

Many televisions come from the manufacturer with ultra-bright display settings to stand out in retail displays. However, bright picture settings may not be necessary for home use and can consume 10% to 20% more energy. Save electricity and money by going to your settings menu and adjusting the standard brightness to suit your environment.

Tip courtesy of Prevention¹⁴

Share the Wealth of Knowledge!

Please share this market update with family, friends, or colleagues.

We love being introduced!

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Investing involves risk including the potential loss of principal. No investment strategy can guarantee a profit or protect against loss in periods of declining values.

Diversification does not guarantee profit nor is it guaranteed to protect assets.

The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general.

The Dow Jones Industrial Average is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the NASDAQ. The DJIA was invented by Charles Dow back in 1896.

The Nasdaq Composite is an index of the common stocks and similar securities listed on the NASDAQ stock market and is considered a broad indicator of the performance of stocks of technology companies and growth companies.

The MSCI EAFE Index was created by Morgan Stanley Capital International (MSCI) that serves as a benchmark of the performance in major international equity markets as represented by 21 major MSCI indexes from Europe, Australia and Southeast Asia.

The Dow Jones Corporate Bond Index is a 96-bond index designed to represent the market performance, on a total-return basis, of investment-grade bonds issued by leading U.S. companies. Bonds are equally weighted by maturity cell, industry sector, and the overall index.

The S&P/Case-Shiller Home Price Indices are the leading measures of U.S. residential real estate prices, tracking changes in the value of residential real estate. The index is made up of measures of real estate prices in 20 cities and weighted to produce the index.

The 10-year Treasury Note represents debt owed by the United States Treasury to the public. Since the U.S. Government is seen as a risk-free borrower, investors use the 10-year Treasury Note as a benchmark for the long-term bond market.

Opinions expressed are subject to change without notice and are not intended as investment advice or to predict future performance.

Past performance does not guarantee future results.

You cannot invest directly in an index.

Consult your financial professional before making any investment decision.

Fixed income investments are subject to various risks including changes in interest rates, credit quality, inflation risk, market valuations, prepayments, corporate events, tax ramifications and other factors.

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¹ <http://goo.gl/vn0EJm>

² <http://www.economist.com/blogs/economist-explains/2015/06/economist-explains-5>

³ <http://foreignpolicy.com/2015/06/12/why-greece-should-reject-the-latest-offer-from-its-creditors-germany-eurozone-debt/>

⁴ <http://www.theguardian.com/business/2015/jun/14/greece-nearing-compromise-deal-on-eu-debts-says-alexis-tsipras>

⁵ <http://www.foxbusiness.com/economy-policy/2015/06/12/week-ahead-fomc-meeting-and-housing-data/?intcmp=bigtopmarketfeatureaside>

⁶ <http://www.foxbusiness.com/markets/2015/06/12/oil-slips-with-saudis-ready-to-up-production/?intcmp=marketfeatures>

⁷ <http://www.foxbusiness.com/economy-policy/2015/06/12/consumer-sentiment-jumps-more-than-expected-in-june/>

⁸ <http://www.usatoday.com/story/money/2015/06/09/jolts-report-april/28712725/>

⁹ <http://www.foxbusiness.com/economy-policy/2015/06/11/retail-sales-jump-in-may-brighten-growth-outlook/>

¹⁰ <http://www.realsimple.com/food-recipes/browse-all-recipes/steak-fajitas>

¹¹ <http://www.irs.gov/uac/Newsroom/Avoid-Summertime-Tax-Scams>

¹² <http://www.golftipsmag.com/instruction/short-game/quick-tips/smooth-operator.html#.U0qi3eZdVsI>

¹³ <http://blog.aarp.org/2015/06/12/some-heartburn-drugs-could-up-heart-attack-risk/>

¹⁴ <http://www.prevention.com/health/healthy-living/70-easy-ways-green-your-life/be-normal-about-your-tv>