Financial Wanderings

A masterful examination of the previous month's financial events, written by Brad Blackburn, CFP ®

(and made even awesomer by Andrea Dickerson)

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June Market Numbers:

S&P 500: -2.09% to 2,063

NASDAQ: -1.6% to 4,958

DJIA: -2.18% to 17,619

10-Year Treasury Yield: +10.85% to 2.35%

Gold: -1.3% to $1,172/oz

The markets slipped on Greece

If you're a regular reader of mine, you know I've had my fingers crossed waiting for a major crisis. The last few months have me bored out of my mind. On the bright side, I've had the time to diligently research new cutting-edge investment strategies for my client portfolios.

But thanks to Greece, we finally have a crisis. However, even with the scary headlines, the markets have barely budged. Greece is inches away from leaving the Euro, wiping out billions of dollars, and potentially causing a global crisis -- and the S&P 500 reacted with a yawn. What's it going to take to get a little bit of old-fashioned panic? When all this Greek drama started way back in the spring of 2011, the S&P 500 dropped more than 17%. But the markets nowadays want nothing to do with panicky overreacting. When the markets are this reasonable and mature, it freaks me out a little bit.

I do this face so you know I'm suspicious

Here's a quick recap of what the problem is: The Greek economy is very weak, and the Greek government can't pay its debts (which amount to 177% of their GDP according to Eurostat). So, the European Union (the EU) has been repeatedly bailing out Greece since way back in 2011. The EU is happy to keep throwing money at Greece – as long as Greece plays by their rules. But no country wants another country telling them what to do, especially when it involves doing very unpleasant things. Unfortunately, there are no easy answers to the problem. Both sides are in lose-lose situations, at least over the short term. Here's a look at the options and ramifications for Greece and the EU as seen by a random financial advisor on the other side of the world.

The EU relents on its demands and Greece stays in the Euro: In a vacuum, this is probably the best option for everyone, especially over the short term. It will probably cost the EU more if Greece leaves the Euro than it would to just throw money at them. However, if the EU bails out Greece without fixing what got Greece into trouble in the first place, it would set a terrible precedent for the other struggling countries in Europe. That's why the EU is forcing Greece to make painful changes to their system. That includes raising taxes, cutting government pensions, and selling off government assets. If the EU takes it easy on Greece, Italy, Spain and Portugal will be next in line waiting for a handout.

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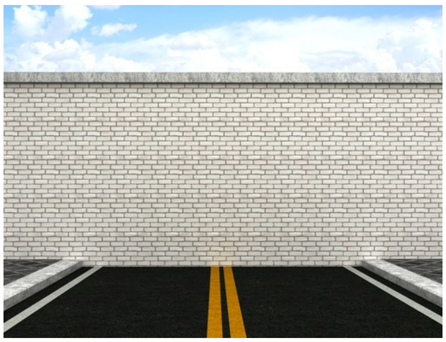
The EU plays hardball and Greece leaves the Euro: The EU looks at Greece like parents would look at a 20-something year old kid with no job who still parties all the time. At some point, you have to cut the kid off unless their bad behavior changes. But if they cut Greece off, Greece will be forced to leave the Euro and begin paying off their debts with their old currency, the Drachma. That doesn't sound so bad, except that technically, there is no way out from the Euro.



The EU was designed to be permanent. There are literally no rules, protocols or pathways for Greece to leave. Of course, they CAN leave, but it will be messy. More importantly, the seal will be broken, which brings us back to the EU setting precedents for other weak European countries. If Greece leaves the Euro, why not Spain, Italy or Portugal? If not this crisis, what about the next one? Once the seal is broken, the EU will never be the same.

So, if Greece holds strong, the EU has a terrible choice: Lose credibility by taking it easy on Greece, or lose credibility by letting Greece out of the Euro.

Greece accepts the terms of the bailout and stays in the EU: To me, this is the most likely scenario over the short-term. But it's also a continuation of the road Greece has been on for years – and it hasn't been a pleasant drive. They've done what the EU has asked of them: Pensions have been cut and taxes have been raised – but the Greek economy has fallen 25%. This is the Great Greek Depression. You can't blame the Greek people for wanting to take a different path.

Greece leaves the Euro: This was my official prediction from back when this crisis started, and I'm sticking to it. But I'm not sure it's going to happen quite yet. The benefit of Greece leaving the Euro is that they could print a bunch of money to pay their debts. But that would cause rampant inflation (most experts think the value of the Drachma would immediately lose more than 50%) and all kinds of other problems. Greece is in bad shape now, and their economy will get even worse if they choose this route, at least over the short-term. Over the long-term, a lower currency could help Greece be more competitive in the world markets.

However, beyond the economic impacts, there are even bigger issues. Greece wants to see itself as part of Europe, and I don't blame them. They live in a scary part of the world, especially with Russia pounding vodka and starting fights. Getting jettisoned from the EU would be a long-term blow to the Greek identity, their security, and potentially the security of Europe, and the world as a whole.

So what's going to happen? In case you need a reminder, back in 2012, I boldly predicted that Greece would eventually leave the Euro, but that it wouldn't cause any major crisis. From where we currently stand, that looks pretty smart… My fingers are crossed that I'll get to gloat about that one for years to come.

Skunks are bold (and something about Iran)

One of the best parts of my day is an early-morning hike with my dogs. But recently we've run into a really small, really big problem: We've been charged by a skunk half a dozen times this spring. That's right, we are getting bullied by a critter that can't weigh more than 10 pounds. One moment I'm stumbling around still trying to wake up, and the next moment I'm sprinting in the opposite direction tugging 120 pounds of dogs. That will wake you up at 5 in the morning.

It seems the skunks and I have come to an understanding, because I haven't been charged lately. But almost every day we watch him strut around in the open in broad daylight, digging and exploring and doing skunk stuff without a care in the world. We recently walked right past that little punk only to have him jump out behind us just because he can.

Skunks conduct themselves like no creature I've ever seen. Most wild animals are skittish and nervous and hyper-aware of what's going on around them. But skunks pretty much do whatever they want whenever they want. It's fascinating.

Then one morning it hit me: Skunks are a perfect example of why we can't let Iran get a nuclear weapon. If Iran gets a nuke, not only will they be emboldened to strut around the world digging stuff up, but the rest of the world will be forced to steer clear of them. One tiny little skunk sent a muscle-bound man and two snarling dogs running away in horror. The obvious conclusion? We can't let Iran get nuclear weapons.

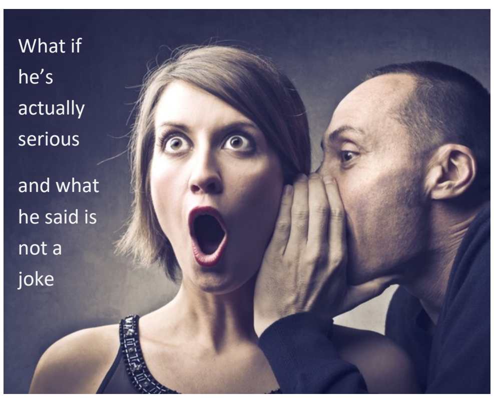
The S&P quarterly winning streak is over

For nine consecutive amazing quarters, the S&P 500 never lost a dime. That's more than two years of wonderful stock market gains to grow your portfolio, fill your soul, and make it rain.

However, just like Lebron's recent run through the NBA playoffs, all good things must come to an end. Over the 2nd quarter, the S&P 500 lost 0.25%. But don't be sad, there's good news: I get to look smart. At the start of the year, I predicted that the stock market would be flat this year. Over the first 3 months of 2015, the S&P 500 gained 0.44%, and in the second quarter, it lost 0.23%. It doesn't get any flatter than that. Of course I want my clients to have gains, but I'd much rather look smart. The markets can go up next year.

Congress and the fiduciary standard—this one is SO easy

The world we live in is wildly complex and has changed incredibly quickly over the last 20 years. Thankfully, that rapid pace of change is probably coming to an end. My hunch is that over the next 20 years, the world probably won't change that much.



That's a good thing because big changes require smart new rules, and our lawmakers are completely useless when it comes to creating smart laws, or dumb laws, or doing pretty much anything at all… Sometimes it's just so incredibly obvious what the right choice is, and yet Congress still can't get it right. The "debate" around the fiduciary standard is a perfect example.

Here's the issue: If you hire a financial advisor, is it too much to expect that they will put your interests first? The fiduciary standard, to which attorneys and doctors are held, says to ***do what's in your client's best interest every time***. That seems like a reasonable standard to me. However, for the vast majority of financial advisors, the only standard they have to live up to is to make "appropriate" recommendations. That could mean recommending an investment with higher fees and higher commissions, as long as it's "appropriate" for the investor.

According to Marketwatch, approximately 80% of financial advisors are not held to the fiduciary standard. Of course, I'm part of the other 20% or I probably wouldn't be bringing it up.

Even though I've explained this issue to every single one of my clients, it's just not something that resonates with people. The general public thinks all financial advisors are the same – and that isn't right. It's important for me to get credit for being a savvy, sophisticated financial professional capable of highly complex computations with just my fingers.

There are a couple ways to solve this problem. The first would be to hold all advisors to the fiduciary standard. That would require many advisors to dig much deeper into their client's situation, and show more diligence in researching investment options. Many advisors wouldn't be up to that task, and maybe they shouldn't have to be. Not everyone needs a tall, handsome, savvy, sophisticated financial planner guy like me. Sometimes, clients just want a hot stock tip or someone to chat about investments with them. Which brings me to my favored solution to the problem: If you are held to the fiduciary standard, you can call yourself a financial advisor. Everyone else gets to call themselves a broker.

I'll give you one guess as to why something so obvious and simple can't get passed by Congress. Here's a hint: It has something to do with huge brokerage houses giving lots of money to the political campaigns of nearly every member of Congress. This is a perfect example of why our political system is so messed up right now. The world is changing rapidly, but the people with the money want to keep things exactly as they are now. That's not a good mix. Wouldn't it be nice if we lived in a democracy built on votes rather

Probably a Mountain or a Lake

This is the Stuart Range from the Fourth of July trail earlier this spring. The Fourth of July trail is the most relentlessly steep trail in the area, but this view into the heart of our local mountains is worth it. In the center of the picture is Mt. Stuart, the king of the Stuart Range. To the left are Dragontail and Colchuck Peaks, which surround Colchuck Lake. To the right is Mt. Cashmere. The Icicle River is far below.

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