Pick a time in history and inevitably, somewhere on the planet, there will be "hotspots", both military and economic, with disastrous results when the two overlap. Today there are shooting wars in the Ukraine and the Middle East, but the economic conflict is in Europe, with Greece being ground zero. China has its own problems, largely as a result of an inexperienced central bank, the PBOC or People's Bank of China.

For five long years now, a "Greek Tragedy" of sorts has played out across the headlines of the financial press. Sometimes the flames subside for a while, only to rise anew, fanned by some impending debt deadline or local referendum. Recall that Greece held an election in January which was supposed to set the tone of the ongoing negotiations between Greece and its European creditors. The Greek people chose an inexperienced 40 year old named Alexis Tsipras of the left-wing SYRIZA party to cut a better deal with those dour German bankers. Through five long months of endless negotiations and brinksmanship, the Greeks played a dangerous game of chicken with the EU. With huge interest payments looming in July, the drama was in the final act. On Saturday June 27 the Greek government had no choice but to close their banks to stop a steady outflow of cash. Concurrently, Mr. Tsipras called for a snap referendum to be held on 7/5 on whether to stay in the Euro. Like an inexperienced card player overplaying a weak hand, Mr. Tsipras painted himself into a corner with no way out.
On Sunday July 5th, the Greek people voted overwhelmingly not to accept any more belt-tightening to please their European creditors. Their resounding "No" vote was a tacit admission that though they desperately wanted to keep the Euro as Greece's currency, they simply lacked the will to endure more years of austerity. One week later, Angela Merkel called Mr. Tspiras' bluff. In the end, Greece agreed to nearly all of her creditor's demands on pension, tax, and regulatory reform, in exchange for yet another bailout. The stock market celebrated with a rousing rally. The crisis seems to be averted for now. Pity the poor Greek people, who after enduring a crushing, five year depression, find themselves facing more austerity.

Greece is tiny, a rounding error on the GDP of Europe. The fear is that the panic might spread to other shaky Euro-based economies, mainly Spain, Portugal and Italy. In the past, when the Greek problem came to a boil, the bonds of these other countries would drop in price, signaling a rise in interest rates and a loss of confidence. But this time, the rates ticked up very slightly--nothing like what they did earlier. Maybe this means that the problem is quarantined and will not spread to the other, larger countries. In our opinion the situation is containable, and we do not expect other shaky economies like Spain, Portugal or Italy to follow suit. If anything, we think Greece will serve as an example of what happens when inexperience and entitlement run in to cold, hard reality. It's unfortunate, but that's why they call economics the Dismal Science.

Now about those Chinese, this is the other major story. For the past eighteen months, the Chinese stock market has been on a ridiculous skyward trajectory, rising 150% at the peak in June. Every day we read stories of new "investors" waiting in line for hours to open brokerage accounts. Farmers neglected their fields because they were making a killing on hot new IPO's. Margin trading exploded. This was not spontaneous, nor was it by accident. The Chinese government, through the People's Bank of China, has been tinkering with monetary policy to engineer a rise in their stock market in lieu of their overvalued/overbuilt housing market. Central Banking is a much nuanced process which is supposed to guide the availability of credit in a massive, multifaceted economy. Our central bank, the Fed, is arguably much more experienced and tries very hard to FOLLOW market expectations as opposed to lead them. If by the time Janet Yellen takes the microphone after a quarterly meeting the market has fully discounted what she is about to say, she has done her job well. Rather than providing the market guidance and nudging expectations toward that end, the PBOC seems to be placating their stock market like a new mom with a petulant two year old throwing a tantrum. One week they are tightening credit to take away the punch bowl, the next they are easing because their market drops 20% and newbie investors are in a panic. This is more like a bubble getting out of control than an accurate reflection of the world's second largest economy. While we don't expect their problems to wash up on our shores in a big way, it is a cause for concern.

The common thread running through these very different “hotspots” is that experience matters. At GBR Wealth Management, we (Sam, Joe, Tonya, and Hayley) form a multi-generational team with over eighty combined years of experience in the financial markets. We navigated turbulent markets from the 1987 Crash, to the 1998 Russian ruble crises, to the dot com bust, and through the Great Recession of 2007-2009. We have seen giddy peaks of bullish optimism and deep valleys of despair and fear. Our mission is to keep you focused on your long term objectives and to filter out the noise. We look forward to serving you in the months and years to come.

As a final note, we hope you have had the opportunity to speak to our new administrative assistant, Hayley Hartman. Hayley transferred to Chicago from our DC office in March to join our team. She is a very capable and personable addition to our group. Welcome Hayley!

Regards,

Samuel Gross, CFP

Joseph Brady

Tonya Rasmussen, CFA

Hayley Hartman