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PIIGS in Europe, Hogs in Washington

-J. Kevin Meaders, J.D, CFP®, ChFC, CLU

July 25, 2011 - I fear that we are being needlessly worried by the endless myriad bombardment of media sensationalism, especially as it relates to the markets and investments. The worst culprits appear in our email inbox designed to scare us into buying this or that subscription.

There is plenty of speculation currently in the media about the debt, the debt ceiling, and of course, the Euro's PIIGS (Portugal, Italy, Ireland, Greece, and Spain). But remember, the news sells commercials and advertisements and those email guys are selling subscriptions. I want to set the record straight, and hopefully offer some—albeit temporary—piece of mind.

The PIIGS

As we have seen time and again, one country or another (usually Greece) has some problems meeting their austerity measures, rumors of default abound, and then our stock market drops about 1-3% or so.

After some finger-pointing, bickering and back and forth on the international scene, the European Central Bank (Europe's version of the evil Fed) and the other Euro Zone governments led by France and reluctantly supported by Germany, end up patching things up, and in every prior instance the stock markets have rebounded. Last week it was Greece, this week it's Italy, next week it's Spain, Portugal, Ireland, etc.

We strongly believe Greece will eventually default, and it and some other countries will be forced out of the Euro currency. Will this crash our world economy?

NO. Actually, after some adjustment, it will be a good thing as those countries that are more socialist are divorced currency-wise from countries that are less socialist. Socialism causes inefficiency, corruption and waste. Thus, the expelling of these countries would initialize an amazing boom to the Northern European Nations and the Euro as a currency.

The Debt-Ceiling

The debt-ceiling "crisis" is a bogus smoke and mirrors political game. "Since March 1962, the debt ceiling has been raised 74 times, according to the Congressional Research Service. Ten of those times have occurred since 2001."[1]

The Republicans are trying to look tough on spending after going along with Bernanke's big bank bailout. They'll flex and growl up to the last minute, then pass a short term emergency

[1] CNN.Money. *Debt Ceiling FAQs: What you need to know.* May 18, 2011

funding package, and continue to draw the lines between "no new taxes" and "don't cut social security" up until next year's election. If this has you worried—you better get used to it.

Congress is a joke. Most of them are there for their own petty advancement, and care nothing for their constituents beyond getting re-elected. This was clearly displayed when they spent weeks arguing over a mere $38.9 billion while our annual—*annual*—deficit is $1.5 trillion. This is like arguing over forty bucks when the bill is $1,500.

All that really matters: Monetary Expansion and Contraction

The Keynesians (as currently championed by Ben Bernanke) believe it is actually a good thing to print money, which they call "Quantitative Easing"—because, they say, it creates stimulus, a boom.

The Austrians (as currently championed by Ron Paul), on the other hand, point to actual history which clearly indicates that every boom is followed by a bust, and thus urge the government to "just stay out of it."[2]

According to the Austrian School, we are currently in a monetary expansion phase, and it hardly matters what happens in the short term—the stock market will rally as inflation makes its way into stock prices, though at some point this artificial boom will become overinflated and crash.

The monetary expansion (usually through the artificial lowering of interest rates) of the boom creates a devaluation of your money—which makes things seem to cost more. This is nothing more than your dollars being worth less because someone has been counterfeiting them. That someone is the Fed. When they print money—they actually *steal* value from the dollars YOU own!

Once inflation has set in—after a good run no doubt of stock price inflation—the Fed decides on a course of monetary contraction, again, usually by manipulating interest rates. In every instance we've studied since 1950, the Fed has raised rates (contracted the money supply) until the market has crashed.

Once most common investors have lost faith and sold out at a significant loss, those in the know swoop in and feast on the profitable remnants, to gain significantly as the markets inevitably recover.

Now, *you* are the one in the know—but have you positioned your portfolio as well as possible given your risk tolerance and the knowledge that the future will be volatile? If you are unsure, we welcome you to schedule a complementary second-opinion check-up.*

What really has us worried.

Fret as you may, your anguish is in vain. The real culprit is out-of-control spending, and the subsequent printing of dollars to "buy" the debt with. Think about it. If it were no big deal to just print money from nothing, why not just print enough to pay for all the debt and be done with it?

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[2] For more information, please see www.mises.org.

* For qualified investors with $500,000 of investable assets

This is exactly what happened in Austria and Germany after World War One. Remember wheelbarrow inflation?

In a very real sense, the government partially defaults on ALL of its debt equally when it creates money out of nothing. When it comes to defaulting on China, it hardly bothers me; but when it comes to retirees who are on fixed incomes, and who must make a decision between buying medicine and traveling to see their grandchildren graduate, my blood pressure just skyrockets at the injustice.

<u>Executive Summary</u>

We are quite unconcerned, and quite unmoved, by the Euro ‘crisis’ or the debt ceiling ‘crisis’.

We are of the strong opinion that Congress will increase the debt ceiling (at the last minute), and spin the entire event as a sociopolitical schism between pro-entitlements and anti-taxes when in reality it all comes down to re-election posturing for 2012’s elections.

The Euro will eventually have to spin off the deadbeats—like finally kicking a loser kid out of the house. It hurts, but sometimes it’s the best kind of love. Like one of my clients told his 30-something year old live-at-home dead beat kid: “I love you, but I don’t like you.”

Today, the money supply is massive, and interest rates can’t go any lower. If there were ever an “easy money” period it is now, except for one very important thing: the banks aren’t lending. Or should I say, they weren’t, until recently. There are signs this is changing, albeit slowly. When the banks open the flood gates, watch out—market rally, price rally. We could easily see Dow 17,000 before this thing crashes on us.

And therein lies the rub: every boom in our artificially created Keynesian economy is always followed by a bust, once the Fed has sufficiently “tackled” the inflation they themselves caused. This is our biggest concern, though it may indeed be several years hence.

The noise from the media can be deafening, like 100 screaming kids all vying for your attention. So I want to encourage you to do yourself a favor: turn off the TV, get off the web, pick up a book, go to the spa, take the spouse to lunch, do some fishing, take the grandkids to Disney, call your kids, parents, brothers, sisters, whomever, and tell them you love them.

After all, at the end of it all, money should be the last thing on your mind. That’s *our* problem. If you haven’t yet turned your worries over to us, then it’s still your problem—but it doesn’t have to be.

About J. Kevin Meaders

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Kevin Meaders graduated from Oglethorpe University in Atlanta with a double B.A. in Philosophy and Political Science, and then obtained a law degree from Georgia State University College of Law, focusing on estate planning and trust law. He has earned the designations of Certified Financial Planner (CFP®), Chartered Financial Consultant (ChFC) and Chartered Life Underwriter (CLU). He holds a General Securities Principal and Registered Representative registration and Investment Advisor Representative registration through ING Financial Partners (member SIPC).

About Magellan Planning Group

www.magellanplanning.com

Magellan Planning Group was established in 2000 to provide a service uniquely tailored to the needs of our affluent Atlanta community. We concentrate on *personalized* retirement planning through tri-disciplinary coordination:

- Financial planning with our Certified Financial Planner™ to prepare a retirement plan that takes into account your needs and expectations. We are a fee only asset management firm with a $500,000 minimum relationship.

- Estate planning with our in-house Attorney-at-Law to determine and prepare the documents needed to minimize family liability and maximize privacy. (www.magellanlegal.com)

- Tax planning through a relationship with our in-house CPA to manage tax obligations throughout the year and prepare a tax return that takes into account current tax laws. (www.magellantax.com)

Our relationship doesn't begin and end with the preparation of a plan and the appropriate documents. We establish close personal relationships with our clients and their families and maintain those relationships through regular 'check-ups', market commentaries and educational Lunch & Learns.

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