

M'aider

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The French term “venez m'aider”, which means ‘come help me,’ is better known by its English adaptation: the international distress signal Mayday-Mayday. May was truly a month in which European countries were issuing a distress call to the world seeking relief from the debt loads that threatened to drown their stagnating economies. The story that first gained wide spread attention in February of this year became the center of attention for investors in recent weeks. As a result of market uncertainty, the MSCI All Country World Index, an index of equities around the globe, fell 9.5% in the month of May.

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In its simplest form, the European concern is that many of the PIIGS (Portugal, Italy, Ireland, Greece and Spain) would be unable to repay the substantial debts they have outstanding. As you can see from the table below, the PIIGS have debt loads that are multiples of the countries' entire economic productivity. For example, Portugal owes 2.36 times its country-wide revenue to its creditors.

2009 External Debt and GDP Estimates

Rank	Country	Debt*	GDP*	Debt/GDP	Rank	Country	Debt*	GDP*	Debt/GDP
1	Ireland	\$2,320	\$177	1311%	11	Hong Kong	\$673	\$302	223%
2	United Kingdom	\$9,150	\$2,150	426%	12	Finland	\$402	\$183	220%
3	Switzerland	\$1,210	\$317	382%	13	Norway	\$553	\$273	203%
4	Netherlands	\$2,460	\$655	376%	14	Spain	\$2,550	\$1,370	186%
5	Belgium	\$1,250	\$381	328%	15	Germany	\$5,130	\$2,810	183%
6	Denmark	\$628	\$199	316%	16	Greece	\$582	\$341	171%
7	Sweden	\$882	\$334	264%	17	Italy	\$2,594	\$1,760	147%
8	Austria	\$828	\$323	256%	18	Australia	\$1,025	\$824	124%
9	France	\$5,230	\$2,111	248%	19	Hungary	\$226	\$185	122%
10	Portugal	\$548	\$232	236%	20	United States	\$13,770	\$14,260	97%

Source: CNBC

* \$ billions

The creditors to these countries have become increasingly concerned over the past six months. Not wanting to be caught flat-footed as they were on sub-prime mortgage issues, the ratings agency Standard & Poor's downgraded Spanish and Portuguese debt in May. This only heightened the concern over potential defaults on the sovereign debt of the PIIGS.

The IMF structured a \$145 billion bailout in early May to prop up Greece and limit the amount of contagion affecting other markets. The payments will come from the other Eurozone nations (\$106 billion) and the IMF member nations (\$39 billion). Given that Germany is the largest Eurozone economy and a member of the IMF, they will contribute about 20% of the money (\$29 billion).

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M'aider (continued)

It would probably be easier for German Chancellor Angela Merkel to convince her citizens of the need to come to the aid of an economic and political partner if that country were to show some remorse and gratitude. Instead, Greece was ablaze throughout the month as retirees and workers protested the reform measures that have been introduced to improve the country's cash flow. The austerity measures include pay cuts, stricter pension eligibility rules, increased VAT taxes and privatization of public assets. So opposed to the changes were some protestors that there were fatal attacks on government and banking offices in the month. All this strains the fabric of the union as Germany and other countries feel compelled to participate in the bailout to avoid wider impact, while at the same time questioning the recipient's resolve to right their ways.

Oh, and it's not just folks in Paris, Belgium and Munich who are concerned about sending their money to the Greek retirees. The US taxpayer will participate pro-rata along our portion of the IMF meaning that we will bear 17% of the \$39 billion, or \$6.7 billion.

How can a country like Greece, which represents only 0.13% of the global market capitalization and 0.49% of the global GDP, drive the markets down around the world and why would the world jump to its rescue? The answer is that the other members of the Eurozone had their own Big Fat Greek Wedding over the years and married their own banks to the debt of Greece and the other PIIGS. As you can see in the table below, one third of the Portuguese debt is held by other PIIGS. Germany owns about one fifth of Ireland's, Greece's and Spain's debt. Therefore, they truly have a vested interest in preventing a default on those bonds.

The declining equity impact to US based investors was even greater given that fear has moved many market participants into the dollar and away from European currencies. The euro, which is the common currency for the 16 member nations in the Eurozone, has declined from €1.50/\$1.00 in early December to €1.22/\$1.00 at the end of May. As a result of the euro currency decline, US investors in euro countries lost 12.4% in US dollar terms even though the markets declined only 5.1% in local currency terms. That additional 7% loss in market value in the month is attributable entirely to currency.

Amount of PIIGS Debt Held by Country

Owner	Issuer					Total
	Portugal	Ireland	Italy	Greece	Spain	
Britain	\$24	\$188	\$77	\$15	\$114	\$418
France	\$45	\$60	\$511	\$75	\$220	\$911
Germany	\$47	\$164	\$190	\$45	\$238	\$684
Other PIIGS	\$98	\$57	\$99	\$26	\$89	\$370
Other Countries	\$72	\$398	\$523	\$75	\$439	\$1,506
Total	\$286	\$867	\$1,400	\$236	\$1,100	\$3,889

Source: New York Times

To help clients put these market alterations into context, The Hartland & Co. Research Department has written a paper with more details on the subject of the Greek debt crisis and what investors should do. Not surprisingly, there is no one single answer as all clients have slightly different needs and situations. That being said, our view is that when there is a market sell-off in which \$5-10 trillion in market cap is taken away from equity markets, it is probably a good idea to prepare for a move into international markets rather than away from them.

The Hartland & Co. Team Enjoys Rigorous Athletics

We want to report on two athletic endeavors which have involved many members of our firm. Both of these events demonstrate the commitment we have to each other and to our community.

In September, we had two teams participate in the Akron Marathon. The spirit of camaraderie and competition motivated both beginners and road warriors to pound the pavement, while participating in an event that raised well over \$100,000 for charities. The teams were comprised of five Hartland & Co. professionals each, of varying ages and capabilities. Congratulations to Adam, Brian, Dani, Dennis, Erin, Grant, Jay, Mike, Satricia and Tom.

The second endurance event to report on involves Carl Tippit. After a year of planning, Carl and several friends are on a seven-week bicycle ride across the United States; beginning in San Diego and ending in Saint Augustine. As of the beginning of November the biker gang is somewhere in Eastern Texas. We expect him home before Thanksgiving. Carl and his fellow riders have dedicated their ride to Fill This House, a not-for-profit that serves former foster care children.

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