



By now you will have heard the news that world markets are experiencing a disruption largely due to the debt crisis in Greece and its flow on effects to other markets including the NYSE and unfortunately our own Australian market.

I wanted to spend a little time sharing some information so that it might help you put the situation in perspective and also potentially assist you if you are somewhat unnerved.

I'll try to keep it as short as possible but there's some material you should really know so expect 5 minutes of reading time.

To kick off, what happened last night?

Last night, the Dow has its largest fall since early 2009, and at one point the index was down some 700 points and then recovered 600 points in a manner of 25 minutes to finish at 10,520 (down 347 points and over 3%). There was some speculation that the NYSE had system issue that caused the fall/recovery, but the most likely scenario was that a fat fingered trader, panicked by the Greek issues, transacted an incorrect figure in trying to sell – hardly helpful to an already jittery market.

In other markets, both the DAX (Germany) and FTSE (UK) were down some 1.5%. Asian markets were similarly down (but by different %).

The Australian market is down and is trading the range of 4500-4600 (after having an early fall to mid 4400's this morning).

Why has this happened? - I almost called this bit 'Groundhog Day'

To put it briefly, it's a consequence of the aftermath of the GFC. As you know, the credit crunch of 2007/08 left many banks in dire distress, and many filing for bankruptcy. In order to prevent a worldwide breakdown of the financial markets, virtually every government in the world formulated a variety of stability plans which in some part included support for the banks and entailed the government transferring a portion of debt onto its own balance sheet.

Some countries, like Australia found itself budgeting for \$57bn worth of deficit to provide this support, and the economy has rebounded and is on a growth path again. Canada and China are in this camp.

However other countries were already in serious debt prior to the GFC and the extra debt has proven to be too much to swallow for some (affectionately called the PIIGS – Portugal, Italy, Ireland, Greece and Spain). Whilst the others are in not the greatest shape, Greece has the most pressing debt problem by far.

The options available to the European Union are as follows:

1. Bailout Greece by contributing \$110bn Euro support and Greece takes austerity measures to cut spending (even though you could argue they don't deserve the bail out and yet again there's future inflation risk)
2. Let Greece have a sovereign default causing a domino effect for the markets (not palatable at all)





If the EU chooses option 2, it will likely be the end of the EU as a unified group and will likely be a repeat of the Russian default crisis in 1994. Therefore, you would have to think option 1 makes sense right?

Here's the Groundhog Day bit.... Just like the last 2 weeks of October 2008 in the US, the German and Greek government parties are actually debating whether the bailout should occur (Germany is the major financier of the proposed bailout with \$22bn of the funds contributed), knowing full well the options available if they don't are not worth thinking about.

The German issue is that PM Merkel is trying to delay the vote till after the election (who says politicians are servants of the people?), but now has no choice, the delay itself is caused a snowball of issues as we all know.

All the delay and debate creates uncertainty, which above even sovereign debt issues, is the markets worst enemy.

What now?

The Greeks have finally agreed to proceed with the Austerity legislation (amid riots in Athens), which effectively cuts back on spending across a national level to reduce debt.

The Germans look like there's no choice but to take the vote tonight. The majority government will likely get the legislation passed as the minorities don't have enough to stop it unless someone(s) crosses the floor (as happened the first time the US TARP package was voted on).

Naturally, once certainty returns, so will some level of stability to markets. We are counting on the Europeans to get it right and done right now.

Our Research Committee Views and Message

For over 6 months Matrix Research has been sharing the belief that there was some likelihood that there would be an increase volatility and poor market conditions due to some 'X' factor that related to the aftermath of the GFC before a long term recovery path was formed, especially given the quick bounce from March 2009.

Most recently, the research comments were centered on our concern that some level of speculative bubble had grown in certain sectors in China (especially property) particularly given Australian reliance on a growing Chinese and general Asian region. However, the speed at which matters had deteriorated in Europe is startling and this has become the current 'X' factor.

Our research recommendation outlook is based on a 3 year outlook and this remains solid. The goings on in recent weeks does not change this. It also doesn't change the fundamental economic profile of the world economy, or the underlying basis for a real but 'bumpy' economic recovery.

Naturally, the similarity to the US's own credit crunch, we would not want the situation to deteriorate further as this would simply drain confidence in a worldwide recovery.

Given that we are not trying to time the markets, the trusty dollar cost averaging strategy remains the solid choice with dealing with investment funds.

To believe in a withdrawal to cash, presumes that we will know when this particular market issue will end, and we will all immediately start reinvesting again at the 'right time' – not likely (remember 6 March 2009 was the bottom in Australia but no one knew it). At a big picture level, you would also have to believe that people don't strive for improvement in their lives over time – I for one don't believe this either.





Also it's important to remember that we are finalizing bank reporting season in Australia, the largest sector of our economy has reported either pre-GFC profits for the most recent period, or profits above consensus, even though down. This does not point to failing fundamentals. Australia remains a good place to be (though keeping an ever watchful eye on China).

So what can we do?

As clients, I have the same message as I had in 2007/08 and it's what you already do.

Please communicate with me, I am available should you have any concerns, I can help explain the situation and focus on your strategy and plans. Investment is just one important part but not the whole.

Warm Regards and have a good weekend