Monthly Report for March 2010

Fund manager's strategy report

All of Greece a Trojan Horse?

According to Greek mythology, Greek soldiers managed to sneak into Troy by hiding inside the belly of a wooden horse. Their cleverness allowed them to finally destroy the city and win the Trojan War. It now seems the Greeks have once again managed to employ this same cleverness, but on a much grander scale. After apparently sneaking into the European currency union by doctoring the books, Greece is now threatening, if you believe what some commentators are saying, to bring about the collapse of the euro.

Currently, Greece seems to have no option left but to cut government spending, resulting in painful consequences for its citizens. With a budget deficit of 12.7% of GDP in 2009, it will be hard-pressed to gain the approval of much-needed new creditors.

But where there are losers, there is often a winner. On balance, some EU countries, particularly export-oriented ones like Germany, are likely to profit from a devaluation of the euro as their own products become more competitive on the world markets.

Overall, the outlook for Germany isn't so bad. While it might suffer some minor damage, at the end of the day it may come out of the crisis a bit stronger. Greece, on the other hand, is unlikely to benefit from a robust recovery of the global economy – as an import nation, its participation is minimal. If, however, significant deflation takes place, this would at least serve as a boost for the important tourist sector.

Greece's relevance in the eurozone

But just how relevant is Greece to the eurozone anyhow? Is it actually important enough to justify such a strong devaluation of the euro, as is currently being observed? The numbers say no. Greece's population makes up only 2% of the EU total. Due to poor economic performance, its share of the eurozone's GDP is even lower. Obviously, the current turmoil over the euro cannot depend solely on Greece's importance in the eurozone as whole.

In fact, the press is focusing less on the economic aspects of the downturn than on the domino effect that would add pressure to other EU countries already on shaky ground, such as Ireland, Spain, Portugal or Italy.

Popular mentalities

Just like in the world of fashion, there are trends in the news industry that many like to follow. Even if, statistically speaking, no changes are detectable, the timing of an event can lead to its increased coverage in the press, giving the false impression that a particular threat has actually increased. Even if the number of people bitten by dogs is no higher than normal, the discussion of it can quickly get out of hand, aided by the slow summer news season, to the point that it can even bring about changes in legislation.

Since the outbreak of the crisis, a mentality has set in where practically every troublesome incident is now expected to impact the entire planet. And even if the event is obviously too minor to stoke such fears, the talk quickly turns to its possible domino effects, thereby further dramatizing the danger.

We have all directly or indirectly experienced the enormous first-hand effects that problems in a dominant economic power like the US can have on the world economy. The fact that a small member of the European currency union like Greece can cause such strong changes in the euro exchange rate shows that realistic criteria are not always applied when evaluating a situation. Compared to the payment difficulties experienced by California, the world's eighth largest economy, the fuss over Greece seems downright laughable. When Greece was bailed out with an emergency loan in 1985 under Papandreou, there was no talk of a European collapse.

Based on past patterns, we can assume that the interest in Greece will soon begin to wane. The next crisis that will presumably impact the globe is probably just waiting in the wings.

Now don't get me wrong. We have certainly not yet overcome the crisis caused largely by the US. We must, however, continue to distinguish important events from unimportant ones in order to take advantage of investment opportunities in these times. In any case, Greece's financing problem is certainly not a critical event for the euro or the world economy. That is unless enough people believe it long enough.

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