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CARTER FINANCIAL

CLIENT BULLETIN

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➢ *Greek Tragedy*

While the situation in Greece has faded from the headlines it is far from over. Meanwhile, some timeless financial, political and economic truths have been brought to light:

- A country, business or family can only continue spending more money than they take in if someone else is willing to lend them more money.
- There is no way the lenders in this situation, the International Monetary Fund, the European Union and the European Central Bank, could forgive the existing loans that have been made to Greece. Italy, Portugal, Spain et. al. would line up behind Greece asking what about us? ***Greece had to serve as a lesson for the rest of Southern Europe, not a model.***
- Greece had little or no bargaining power:
  - The amount of money they owe is small relative to the GDP of the European Union. As a result, the lenders were willing to walk away and let Greece default.
  - Greece's debt had largely been shifted from banks and individuals to governments and central banks so the risk of "contagion" was minimized.
- Poor leadership trumped good finances. As a result of measures implemented in conjunction with bailouts in 2010 and 2012, Greece's GDP was going up and their unemployment and fiscal deficits were coming down. The Greek people shot themselves in the foot, however, when they elected the Syriza party in January based on promises that were impossible to keep. They shot themselves in the other foot when they voted "no" on the recent referendum - the provisions they have ultimately had to agree to are much more stringent than the terms they declined in the referendum vote.
- In the end, math wins.

➢ *Connecting the Dots*

The situation in Greece is just the latest example of conditions that are playing out around the world. Puerto Rico faces restructuring or bankruptcy, Illinois' state pensions are just 39% funded and Detroit declared bankruptcy last year. What is the common thread to these situations? Too much debt and too little economic growth to pay for it means eventually you run out of other people's money to keep things afloat.

➢ *Keeping Current*

Currency hedging is capturing a lot of headlines these days for two reasons. The first is the performance of the U.S. dollar which has shot up 20% since last June and since then come back down around 5%. Those are big moves in currency terms. The second is divergent monetary policies. Here in the U.S. the Fed is close to tightening monetary policy whereas in the Eurozone and Japan a rise in interest rates is a ways off. (Source: Financial Times)

➢ *Currency Basics*

Before getting too technical about currency hedging, it is helpful to take a step back and look at how currency fluctuations impact investment portfolios. As an investor, you most likely own assets in the U.S that are denominated in U.S dollars as well as international investments that are denominated in other currencies such as Euros or Yen. When you receive a return on these international investments, you eventually have to translate them back into dollars because you can't spend Euros here in the U.S. If the U.S. dollar strengthens, it might make a vacation to Europe more attractive, but it has negative implications for foreign investments when Euro-denominated investments are converted back to a now higher U.S. dollar.

➢ *Hedging*

Hedging currencies involves attempting to remove the risk of currency fluctuations from your investment portfolio. Most long term **equity** investors do not do a significant amount of currency hedging. Why? Over long periods of time currency fluctuations tend to even out, such that the expected "return" from hedging currencies is actually negative after considering the cost to hedge. Trying to benefit from currency fluctuations is a very difficult proposition. Hedging ***fixed income*** investments is a different matter. The main benefit of purchasing fixed income investments (bonds) is their steady stream of income and low price volatility. The fluctuations of currencies relative to the prices of bonds are much greater so it makes sense to hedge currency exposure to get the lower volatility and income stream you are seeking. As with any investment issue, it is important to have a well-thought-out approach to currency exposure.

➢ *Elder Abuse*

I recently attended a training session centered on recognizing signs of diminished capacity in older clients that could indicate the potential for financially-related elder abuse. Additional investigation is warranted if someone shows signs of the following:

- Seems to have memory loss, difficulty speaking, seeing or communicating
- Is unable to process simple concepts
- Seems unable to appreciate the consequences of decisions
- Is not aware of or does not understand recently completed financial transactions
- Appears disoriented with surroundings or social setting, and is uncharacteristically unkempt or forgetful
- Makes decisions that are inconsistent with his or her current long-term goals or commitments
- Is subject to significant mood swings or otherwise erratic behavior