The Delta Group

A FINANCIAL ADVISORY FIRM

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Overview:

"…it's all Greek to me". Julius Caesar, 1601

My best anecdote for the coming Greek bankruptcy was a story about a large hospital in Athens that was running deficits. Not surprisingly, a government inquiry found the hospital employed 45 gardeners. I pictured a hilltop facility, statues, groves of olive trees, fields of lavender etc… The facility – had no garden.

Government workers in Greece account for 25% of the work force. By comparison, the US employs 8%. Story has it the Greeks don't have enough chairs for everyone to sit, so the majority stays home.

Greece spent more than they earned and borrowed the difference to create an illusory fountain of wealth. The Euros lent, and the Greeks spent, on generous pay and pension programs. Now a March debt repay deadline is approaching, and the Euro leaders are squirming to find a solution that doesn't include financing the debt, with even more debt. The Germans, for some reason, resist the idea of printing money, and papering over the whole mess.

We here in the US have gotten past that emotional hurdle and print willingly. The stock markets around the world generally applaud such action which leads to the market gyrations we've experience over the past six months. Investors follow the weekly Euro drama and their attempts to deal with bankrupting members.

The Euro's are squirming, not so much for Greece, but for French banks that own much of the debt…and of course for Italy, Spain and Portugal, who are next in line for a scolding! A painless solution though doesn't exist.

Economic

My mother, after reading the Christmas poem we sent, asked me for whom was I rooting. I had suggested the 99%rs were blaming the 1%rs for stealing Santa. I told her I was rooting for the champagne.

Being a ***greedy*** consumer, I demand a quality product (beverage), offered at a reasonable price and delivered in a timely fashion. Let them make a buck to repeat the process next year. And The Delta Group and its clients remain happy.

Grossly labeling Wall Street as the villain and the puppet masters of our economic enterprise is as simple minded as the tent people themselves. WS didn't close down steel mills in Carolina. Asian competition did.

The vast majority of wealth in this country never gets near Wall Street, for one. Two, the economy is **not** a zero sum game. It can't be hoarded. My gain is not your loss. Three, go ahead, raise taxes. Jack up the rate from 35% to 100%. Take it all. Pay off student loans. Make college free! But the feel good "get the rich" scheme nets *only* ~$400B. Not enough and darn it, we're still a trillion short. The tent people flunk math, remain unemployed and we follow in Greece's footsteps.

The political challenge: How can we find a solution if we can't even agree on the argument? Some think we're competing with ourselves: rich vs. poor. Others (myself included) believe we are competing against the Chinese with their lower yet rising standard of living eating away at ours. We make up the difference with debt – borrowed from the …Chinese. Works dandy in the short term, but the Euros have found the long term payback does in fact arrive. Europe is painfully dragging itself through the discovery process – but politically, it's very difficult to blame yourself, for yourself.

Capitalism is simple. It sorts winners and losers. It is not fair, it is not balanced, it does not play favorites. Add the government enterprise to the equation and the game changes – more regulation, slower growth, higher unemployment which can't sustain the largess of fat pensions and 35 hour work weeks. Ergo, we go bankrupt.

Overall positives/negatives for the economy:

Tailwind:

- Accommodating Fed
- GDP gaining momentum
- Employment rising
- Retail sales up
- Stocks (relatively) cheap

Headwind:

- European debt crisis
- European recession
- Tight credit
- Chronic under-employment
- Trillion dollar Federal deficits
- Banks and companies hoarding cash
- Government policy uncertainty

<u>Investment</u>

Worldwide, stocks were weighed down last year from lack of resolution to the coming European defaults with worries of recession and bank failure center stage. Sounds like a repeat of 2008, actually, when our banking system shivered under the weight of our own subprime meltdown.

Japan is still in their mess, and their housing and stock market bubbles blew twenty years ago. Some say we could be in for the same. We've spent many decades building our bubble, and it may take half as many to sort through. Leverage has been our friend to finance homes, cars and business enterprise. The Great Unwind will play out in ways that may not be to our liking. The weaker countries in Europe and states in the US will follow over-indebted homeowners down the path of foreclosure.

Last year's posit suggested caution, as does this:

- Stay diversified
- Emphasize fixed income and dividend paying stocks
- Take advantage of market swings (buy on dips)
- Don't get scared out of markets

Gold is still a buy even though it's off 20% from its 2011 peak since paper money loses value as Euro's and US central banks print more.

<u>Conclusion</u>

The rich-man/poor-man drama playing out in our political system is ironic. Fairness is arbitrary, and who owes who an endless debate. What is clear is deficit spending is a chronic ill as world economies are held back from the weight of their deficits.

However, the central bank solution to print money to fund shortfalls benefits the rich man's economy. Bad news becomes good news as corporate profits and stock prices rise while the poor man's economy of labor and wages suffer.

Europe's challenge is facing the "we have met the enemy and he is us!" reality. The socially engineered welfare state is bankrupt, and the people it was designed to protect suffering the consequence of those policies.

To this end the solution is simple. The champagne drinking private sector (us) needs to grow while the money sucking public sector needs to shrink.

In the meantime, our responsibility is protecting what we have. When opportunities arise, buy for the long term.

Thank you for your continued support!