# Greece Debt

If you opened a newspaper on March 9th, you probably saw headlines proclaiming that Greece had averted an immediate default on its massive public debt.1 It's possible that you found these headlines self-explanatory, with no explanation required. It's also possible that you shrugged your shoulders and said, "So what?" The third possibility is that you thought to yourself, "Well, I don't know why that matters, but I'm sure Rob Ryan will tell me more about it."

Hence this article.

One thing I've noticed over the years is that while the media does a very good job of *reporting* the news, they sometimes fail to *explain* it. Content is emphasized over context. That's what I'm here for. It's part of my job to make sure you're as educated and informed about your money as possible. Greece may be a long way from here, but it still has an impact.

**So what's the deal with Greece?**

You've probably heard about Greece's continuing financial troubles. Simply put, the country is massively in debt, its' citizens subjected to both numerous international bailouts and harsh austerity measures. But because Greece is a part of a larger community, the European Union, its troubles affect more than just Greeks. The European Union is a political entity, but also an economic one. Most of its member states participate in a single market, which links each country together by using the same currency and economic regulations. So, if Greece were to default on its debt, it would harm other countries as well. For example, if Greece cannot pay the debt it owes to other countries, then those countries would in turn have greater difficulties meeting *their* obligations. This is sometimes referred to as *financial contagion*, and you can imagine it just like an actual contagious disease. One person gets sick, then spreads it to people around him, and so on.

One of the ways the EU tried to fight the disease was through bailouts. But Greece's troubles didn't end, so the EU gave the country an ultimatum: if you want more help, you're going to have to help yourself first.

And that brings us to the recent headlines. In order to secure a second bailout, Greece agreed to *restructure* their debt, which is really just a way of saying, "convince your creditors to accept less money." And they did. That's what the headlines are referring to.

**So what happened?**

Again, we'll keep it simple. Greece convinced about 85% of its private bondholders to accept less money than what they're owed.2 According to CNN, investors who own Greek bonds could see losses of up to 75%.2 That's bad news for bondholders, but it's good news for Greece, who now qualify for a second round of bailouts, which should greatly help ease their massive debt.
(The restructuring agreement itself should help too.)

**So why should I care?**

I'm not saying you should open up a bottle of champagne, but this is good news. Remember the idea of *financial contagion?* Well, diseases can spread across the pond, too. In this day and age, *everyone* is linked. U.S. and Canadian banks are intimately involved with European and Asian banks, because they're all constantly lending and borrowing money from each other. So if Greece defaults, banks in France and Germany will suffer. If those banks suffer, banks in New York and Montreal will too. And we've already seen what happens when *our* banks struggle.

Here's another thing to consider: exports. In the U.S., more than 20% of all exports go to Europe. 14% of that goes to EU countries.3 So if Greece is sick, most of Europe gets sick, and if Europe gets sick, then so does the U.S. This is because if Europe doesn't have the money for our goods and services, then it's our own economy that takes a hit.

So why should you care? Why does this matter? Because in the 21st century, what happens in one hemisphere affects the other. What happens in *our* hemisphere then affects our country. Our country affects the markets, which in turn affect … you. In this case, the news that Greece is taking proactive steps to get out of debt should help ease some of the fears and pessimism that the markets have about Europe. And when you take away fear, good things tend to happen … for all of us.

Understand, that this *doesn't* mean you have to follow Greece's every move, or that these headlines are guaranteed to significantly affect your portfolio, whether positively or negatively. There are many factors to take into account, and Greece is just one. In fact, part of my job as your financial advisor is to make sure that any single event *doesn't* make or break your portfolio. In this global community we're all a part of, the ripples near one shore will always reach the other. Greece has been and will continue to be in the news, so whenever you hear about them, I want you to know just why it matters and just why you should care—when you know, you can plan accordingly. You can ask the right questions. And you'll know that all of us here at Ryan Wealth Management are constantly watching the news and putting it into context. So if anything happens, even across the ocean, we'll know about it. We'll know why it happened.

And we'll know what to do about it.

If you have any questions about how the news impacts you, or if you just want to chat about your portfolio, please don't hesitate to call me at Ryan Wealth Management. My door is always open.

References:

1 http://tinyurl.com/6n44vyd
2 http://tinyurl.com/7z7pg72
3 http://tinyurl.com/6by4ppn