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*February 4, 2010*

## **The Market is Worried about Greece**

*And Portugal. Should we be?*

Without beating around the bush, the answer is “yes.” The failure of a government to make good on its bonds would be a serious event anywhere, but in the Eurozone it would be unprecedented. This is the sort of thing that happens in the corners of Asia or Latin America, not in the so-called “developed” world.

But Greece will need help and the same might be true of Spain, Portugal, and Italy. This group is referred to in a variety of ways: the “PIGS”, “Club Med”, and most recently, “The Olive Belt.” What these countries share is a history of highly relaxed fiscal behavior.

In the days before the Euro they all had a safety valve. When they owed too much to the outside world, they would devalue their currency and wiggle out of the situation, while impoverishing their people. Now they have the Euro and the safety value of devaluation is no longer available.

One obvious solution is that some or all those in the Olive Belt could drop the Euro and go back to their old currencies. Some are predicting this outcome. Running Greece on the Deutschmark (we now call it the Euro) is no fun.

For now the Germans face a very difficult set of choices. To preserve the Euro, the rich north, dominated by Germany, will need to bailout the south---at least Greece and maybe the others. If they do a bailout, the Euro will fall in value against the dollar. The average German citizen may wonder what’s in it for Germany? It’s not clear to us.

The stock markets of the world are worried that Europe will somehow fumble the ball and Greece will become the Lehman Brothers of 2010.

The worst probably won’t happen since the pain of 2008 remains fresh and central banks will print whatever it takes to plug the hole created by a government bond default. But the list of troubled governments is long and so-called “sovereign” default will be spooking the markets for years.

We still think the current correction will end up being a buying opportunity, but we will be patient and continue to raise cash until the storm passes.

Best regards,



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PS - I will be out of the office next week, but reachable. Alison Peck will be available for investment questions and our support staff can always take care of any housekeeping issues.