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*"In our view, Greece is increasingly likely to restructure its debt in a manner that would result in one or more defaults under our criteria."*

--- Credit rating agency Standard & Poor's, which lowered Greek sovereign debt to CCC on June 13. Bloomberg Businessweek June 20 – June 26, 2011.

Greece has run out of money. In Athens, citizens are rioting against plans to cut benefit programs that the country can no longer afford, even though trimming the nation's expense structure is a requirement for Greece to receive a bailout loan package from the 17-nation euro zone and International Monetary Fund. To further complicate matters, nobody seems to know the total face value of insurance policies in effect, known as credit default swaps, which could trigger a broader financial crisis if Greece fails to pay its existing debts. Passing the austerity measures will bring urgently needed debt relief, but will likely depress a Greek economy that is already in recession and suffering high rates of unemployment. It is truly a predicament. Before we get too uppity about the mess Greece has made for itself, we probably should look in the mirror. The United States is in a similar situation.

It is no easy task to weigh compassion versus cost, yet that is the situation much of the developed world now faces. America was on an upswing after WWII. Our population and our economy were rising, as were a multitude of civil rights and other humanitarian movements that made us a more open-minded, caring society. However, the cost of benefit programs enacted over recent decades rose faster than our ability to pay for them. The resulting deficits have been financed by dramatic increases in borrowing. Congress is now debating whether to raise our nation's debt limit beyond its current level of roughly \$14.3 trillion. It is a staggering amount of money that, even under the best of circumstances, will take many years to pay down.

As with Greece, the ability of the U.S. to pay its debts is a matter of international concern. In the recent two decades, the percentage of U.S. Treasuries owned by foreigners has grown from roughly 20 percent to around 60 percent. The largest holders of our nation's debt are China and Japan, who together represent almost half of all the U.S. Treasuries held by foreign owners. Lenders are counting on us to make good on our promises. If they lose confidence in our commitment to honor those debts, borrowing costs are likely to rise at a time when we can hardly afford it. Greek bonds are a cautionary tale. They are rated as "junk," and Greece would have a very hard time finding investors to lend them money without the additional backing of the euro zone nations. It is a bit like needing a parent to co-sign for a car loan. Only, who would be big enough to co-sign for U.S. debts? When people talk about "too big to fail," the United States is the biggest.

Like Greece, the U.S. economy is struggling with high unemployment and sluggish prospects for overall growth at a time when policy makers must consider trimming government spending plans. There seems to be widespread awareness of the problem, but the solution still involves unpopular options. Paring the debt burden will require raising tax revenues and cutting spending programs. The difficult decisions are in the details. What policies will best increase tax revenues? What benefit programs should be trimmed, and by how much? At each step of the way, there will be debates over fairness and the specter of class warfare. Tax revenues are mostly provided by the wealthy, while spending programs mainly benefit those with lower incomes. There are sufficient abuses throughout the system to provoke cries of hypocrisy by both sides of every argument. Doing nothing is no longer an option. Not for Greece, and not for the United States. Everyone is likely to feel violated by the compromises that are coming our way.

It is an uncomfortable time for investors when the actions of politicians hold such sway over the capital markets. The combination of disappointing employment figures and the heightened fiscal crisis in Greece cast a cloud over the securities markets in recent weeks. Once again, investors are watching with bated breath each time the European Central Bank and our own Federal Reserve make their pronouncements, while the various heads of state in countries around the globe encourage their ruling houses to take appropriate steps to get their economies on a positive track.

If there is a bright spot on the immediate horizon, it is that we are entering earnings season, the beginning of each calendar quarter when companies issue their profit reports. Throughout this tepid recovery, earnings reports have provided the most encouraging news to investors that companies are regaining solid footing.

Enclosed is an article on West Oak Capital that appeared in the June edition of *North Ranch Living* magazine. Also, we had a great response to our May client survey. Our sincere thanks go out to everyone who took the time to complete the survey. Your input is very much appreciated, and it will help us to continue to do our best in looking out for your interests, no matter what the economy brings.