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I once had a seventh grade teacher tell my class how lucky we were to be citizens of the United States. Of course, we all took it for granted. We didn't know anything different…but she did. You see, Mrs. Danishevsky, who taught us Russian, had emigrated from the Soviet Union and knew whereof she spoke. She loved her new country (and she loved her students); she was literally "on top of the world" and wanted her young charges to understand just how fortunate they were simply to be born here.

I oftentimes think of that simple lesson, including recently in regard to the mundane field of investing. There have been dual reminders: the Greek financial crisis and the Chinese stock market bubble (and subsequent collapse). As these events have unfolded, more than one TV "talking head" has opined that the U.S. is next. Do not be misled by such irresponsible talk. While the U.S. is more than capable of a stock market bubble (2000) or of borrowing too much (2008), the size, stability, and resilience of the U.S. economy is on a completely different level than these two economies.

In the case of Greece, their primary problem is that they borrowed too much money in someone else's currency: the euro. "Wait!" you say, "Isn't the euro their currency?" It is the currency they use (for now), but they do not print or control it. When they run dry, they have to get euros from the European Central Bank, which is tantamount to borrowing them from the Germans. They do not control their own financial destiny. The United States, on the other hand, borrows in U.S. dollars that it prints and controls. And, as the world's primary medium of exchange, the U.S. dollar and its debt instruments are always in great demand. As the world's largest economy (on a current dollar GDP basis) and the world's largest consumer of goods, foreign countries are anxious to sell us stuff and take dollars in return (which they recycle into dollar-denominated debt).

In the case of China, their stock market essentially excludes foreign investors, who could provide great liquidity to their markets. Instead, Chinese investors are now looking to their government to stabilize the stock market. While it's natural for investors in a stock market crash to look to the government for help, the Chinese government is viewed by the populace as omnipotent. Their inability to halt the crash could have a devastating impact on Chinese confidence. Won't this hurt the U.S. economy and markets? Only incidentally. Since we run persistent trade deficits with China, they are much more dependent on our spending than we are on theirs. If their economy falters, some U.S. exporters to China will suffer, but most U.S. businesses and individuals will not feel much pain, if any.

When it comes to the world economy, most financial blessings (and ills) flow out of the U.S. to the rest of the world, not the other way around. Thus, while we watch these events closely, we are not losing sleep. Rather, we're looking for opportunities to take advantage of foreign volatility.

Thank you for your confidence in us.

Gratefully,

Mark A. Keller, CFA
CEO and Chief Investment Officer

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