MKG Financial Blog

“Kicking the Can!” A global anomaly!
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There’s an interesting statement of comparisons. By now, most readers have heard or read a variety of new reports or read articles regarding the shallowness of any details for the Europe bailout fund and ancillary components. No matter how you cut it, there isn’t a lot of difference in what Europe pushed through last week and what the U.S. accomplished just a few months ago—both coming in with a plan of action that contains little explicit data, nor commitments on how the plan will be accomplished.

This is called “kicking the can down the road” because the accomplishment simply satisfied the demand for the existence of a *deal* with the understanding that the holes will be filled in later when the time to implement the plan comes to fruition. The original “kick the can” scenario for Europe actually began in mid-2010 when an attempt to bring Greece out of its troubles moved forward without a workable plan or much hope for success.

The current bailout plan in Europe doesn’t have the specific power behind it that had originally been discussed among the eurozone countries. It is smaller than the original amount thought necessary to provide coverage against sovereign default from ailing countries. In addition, there is a lack of any specific commitment from private investors providing questions about where the funds will come from when needed. As an example, while it was hoped that China would come to the aid of Europe as a contributor to the bailout fund, China has made it clear that it is studying the situation, but is not a willing candidate to help bail out a further ailing scenario. Therefore, despite the hoopla and joyous enthusiasm from investors, Europe just “kicked the can” again.

This may seem familiar to what we have recently seen here in the United States. *The Wall Street Journal* ran a lead article on July 8, 2011 entitled “*Sights Set on Grand Debt Deal—Obama, Congressional Leaders Eye Sweeping Bargain to Cut Deficit by $4 Trillion*.” Of course, the amount eventually was significantly reduced and when the agreement was finalized, the particulars as to where the money or spending cuts would occur were pretty much left out of the picture—referenced *also* as “kicking the can down the road.” And despite the rhetoric about whether the European leaders can take a lesson or two from the U.S., or just the opposite in the views of others, the characteristics are all too familiar in both cases. The United

States’ next budgetary challenge should emerge before Thanksgiving when the Congressional “supercommittee” is scheduled to make its recommendations.

So with the clock ticking and the world watching with great anticipation—and hesitancy, investors were relieved that a European deal was struck and the markets have moved up in one of the best performing Octobers seen in decades. However, with the realization now of everything discussed here, the markets have quickly lost steam and ended the last trading day of October with a 276 point loss in the Dow Industrials. All eyes will be waiting to see if this is just the ending for a month in which short-term profits have been taken off the table, or whether concerns in moving forward appear to be warranted as investors push the market back to the lower end of a *new* trading range. The answer lies within the economic prospects, corporate outlook into 2012 and the supercommittee’s recommendations to the Administration and Congress.

~Mark Gaskill, Chief Investment Officer