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**VIEWS FROM CAMELBACK MOUNTAIN**

*Something for Nothing*

Many politicians have had a tendency to tell voters what they want to hear and to promise benefits that are unsustainable. This just happened again in Greece when the Prime Minister advised his electorate to vote **no** on Sunday's referendum about austerity measures. He told his people that within 48 hours he would be able to negotiate a better deal with creditors if the referendum result was a resounding **no** vote. The Prime Minister will now have a chance to deliver on that promise. The banks and investment markets are closed in Greece and most credit cards do not work anymore. Cash withdrawals are limited to 60 euros per day, that is, if you have an ATM card and if the ATM contains any currency. Unless Greece obtains many, many billions of euros, the banks cannot open. If they did open without the additional euros, the depositors would pull all of their funds out of the banks and the banks would fail.

The more responsible European leaders now need to decide how to deal with Greece much like a parent needs to discipline an unruly and irresponsible child. If the rest of Europe simply gives in and gives Greece what it wants, it's only a matter of time before they are back with more and bigger demands. There is also a contagion risk that Italy, Spain, and Portugal will be emboldened to demand greater subsidies from the rest of Europe. Germany's government is responsible and is taking a strong stand. France's current leadership is socialist and naturally sympathetic to Greece's socialism. The United Kingdom is currently happy to be in the European Union (EU), but very pleased not to be in the Euro.

Fortunately, Greece is a small country with a largely unimportant economy. Greece is a case study for the direction that Italy, Spain, and Portugal are headed. It also illustrates how difficult it will be for the EU to hold together its monetary union given the wide differences in the political direction of the various countries. The drama is not over and things are likely to get worse. At the very least this is a severe distraction for the rest of Europe that will not help existing economic and political problems they are experiencing. The European Central Bank (ECB) will likely print more euros and purchase more government bonds to attempt to contain the Greek crisis and minimize the impact to the rest of Europe. Even with these actions, the euro is likely to continue to decline in value. The Greek economy will suffer no matter the outcome and every day that goes by heightens the probability that Greece will need to shift to IOUs, or new drachmas to reopen their banks and to keep government employees working. This is probably a slippery slope that leads to a new non-euro currency in Greece, which would come with a severe devaluation. This is why Greek depositors pulled many billions of euros out of Greek banks over the last six months. Something good can come out of all of this if the leadership in Italy, Spain, and Portugal heed the outcome of the Greek case study.

The U.S. economy is in much better shape structurally and politically than Europe is in general and Greece in particular. Even so, we do have our own unsustainable economic problems that will have to be dealt with eventually. This includes the coming insolvency of Social Security and Medicare. A more current crisis in the U.S. is brewing in Puerto Rico, where the Governor recently announced that there was simply no way that Puerto Rico could pay its bills. The unfortunate municipal bond holders are going to

lose a great deal of money as Puerto Rico's own financial crisis unfolds. The state of Illinois and the city of Chicago also have massive unfunded liabilities that need to be dealt with. The list goes on and it is long, but Detroit and Greece have hopefully demonstrated to the politicians that these problems need to be dealt with eventually.

For investors, we think it is critically important to avoid serial defaulters such as Venezuela, Argentina, Russia and Detroit. It is also important to identify tomorrow's catastrophe in the making, such as Puerto Rico, Illinois, Chicago and numerous others. Be very cautious if someone offers you something for nothing.

Best regards,

A handwritten signature in blue ink, appearing to read "Harry Papp". The signature is fluid and cursive, with the first name "Harry" and the last name "Papp" clearly distinguishable.

Harry Papp  
Managing Partner  
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