

Business

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On international events and worst-case outcomes

Investors know how to handle news, both good and bad, real and potential. Uncertainty is a different matter. No one likes that, so it leads to volatility and we're seeing a lot now.

Is Greece's debt problem solved or to be resolved? What effect will a bear market in China have on the global economy?

Let's tackle some of the uncertainties.



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Greece. How (and why) such a small country was allowed to amass debt of \$350 billion is a

mystery to me.

Equally baffling is why investors immediately believe in worst-case-scenario outcomes.

In the 1980s sky-high interest rates and inflation were to be our undoing, then the enormous debt levels in Mexico and Argentina were sure to destroy U.S. banks that loaned them billions.

Then there was the 1987 crash that some insisted would be a re-play of the 1929 version with another Great Depression looming.

In the 1990s there was the Soviet-era debt default and the 2008 financial crisis. In each case it was in everyone's interest to deal with the matter at hand and there was no constituency for failure.

When all forces – public and private – are arrayed against its occurrence then why assume, as many always do, the worst outcome?

China is more interesting. It is the second-largest economy and many local investors are seeing their first bear market.

The plunge in prices (down 30 percent in three weeks) reminds me of the 1987 crash when stocks fell more than 30 percent but were only giving back earlier gains. Even after the selling in China, prices are up year-to-date.

The Chinese government is learning that some things are not under their control. They have increased funding to securities firms to buy stocks and they made it easier for insurers to buy blue chips.

On some days half of their securities are halted in order to stop prices from falling further. Citizens may become dismayed that their government is losing control. This will adversely affect GDP growth and spill over to the global economy and stock markets.

The uncertainty is leading to a sideways stock market. Year-to-date stocks only have marginal gains. For the next few months patience is needed.

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