Opportunity In Greek Crisis

The Chinese word for “crisis” is said to represent danger and opportunity. The ongoing Greek finance drama has created a crisis environment which is providing U.S. equity investors a buying opportunity.

The turmoil in Greece has caused great consternation over what will happen to the debt beleaguered nation. Will Greece receive another cash infusion? Will it leave the Euro? These questions certainly are up for debate. However, worry about the situation has bled through many international markets. Fortunately, we believe there is a growing opportunity for U.S. stocks to climb this wall of worry.

Evidence of concern in the U.S. stock market is palpable. Noted investor Bill Gross recently proclaimed investors should “hold cash” and billionaire Carl Icahn suggested on CNBC, “right now it’s an extremely dangerous time [to own stocks]”. They are not alone in their bearish sentiments.

Barron’s weekly financial newspaper recently displayed a cover headline, “Time to Sit on Cash”. Earlier in June, an American Association of Individual Investors (AAII) survey showed the fewest number of bulls among the general public since April 2013. The Institutional Investor (II) survey confirms the lack of bulls with a relatively low reading. Merrill Lynch, a leading brokerage firm, reports “…Wall Street’s bearishness is still more extreme than at the market lows of March 2009.”

With so much pessimism why does our research see opportunity? Contrarian investors know profits lie in periods where the overwhelming majority mistakenly believe in a market path, then begin to weaken in their sentiments. Already, the very latest readings from two sentiment calculators (AAII and II) are rebounding to healthier levels.

There are other favorable factors. Today’s inflation premium (wholesale – retail inflation rates) is a positive for stocks and suggests costs remain under control. Further, after a long absence, consumers are beginning to spend. U.S. Personal Consumption enjoyed its largest monthly gain since April 2009. Additional good news includes the surprisingly strong new home sales.

While many investors will respond to the Greek crisis by dumping stocks, this may well be the wrong reaction. The more correct response is to take advantage of lower prices by selectively adding equities at distressed prices. While the crisis fills the airways, our risk indicators have become more favorable. With the high tide of naysayers, we believe this is likely to prove to be an opportune time to buy domestic stocks for underinvested accounts.

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