After the Eurozone Fix: What Happens Now?

We cannot say that we don't live in historic times. It was just a little over a decade ago that the sovereign states of Europe set aside their ancient currencies, decorated with sitting kings and past presidents, to adopt the euro.

It was a radical idea: an international currency without the backing of any one country. But for all the hopes and dreams of European unity that went into it, it was a tremendously flawed idea from the start.

The European project has much to be admired. The free trade and free movement of peoples has made Europe far more productive, and economic integration is a process that is its own reward. But in pushing forward with a common currency before they had a true fiscal union, the Europeans put the cart before the horse. And today, with Europe threatening to drag the global economy into another deep recession, we're all seeing the results of such an ambitious leap into the unknown.

As we enter the third quarter, Europe's leaders made a major breakthrough in helping to resolve the crisis. Bailout funds would be administered directly to banks rather than passing through the countries in question first. To make this workable, the Eurozone would create a single banking regulator, something roughly akin to the FDIC in the United States. A banking union is the first step in a proper fiscal union, which is what the EU needs if the euro is going to be a viable long-term currency.

We will see how this all unfolds. Chances are good that by the end of this year, at least a country or two will have left (or will have been asked to leave) the Eurozone. And for all we know, it might not be a basket case like Greece but a pillar of strength like Germany. Germans may well get tired of bailing out their neighbors and may opt to leave on their own. Stranger things have happened.

To investors, the goings on in Europe can be a major source of worry. A single comment or raise of the eyebrow by a prominent European politician can move the Dow by 200 points, it would seem. But more than anything, it is the uncertainty that is the most unnerving

During times like these, it helps to step back and get perspective. There are things that we don't know and cannot accurately forecast—such as the precise outcome of the Eurozone crisis—but there are plenty of things we do know and can adequately plan for.

We know that demographic shifts are underway and that the Baby Boomers are aging and preparing for retirement. This means that debts are being paid down and that excess income is being plowed into savings, not consumption.

In this kind of environment, it makes sense to tailor your financial plan around the generation of income and the preservation of capital. Capital gains can be fleeting in even the best and most stable of times, and at volatile times like these they can disappear in the blink of an eye. But it is ultimately income, and not capital gains, that pays the bills.

To be sure, in a market like this there are ample opportunities to profit for those investors who are nimble. But my point is that we cannot bet your retirement on those kinds of gains, as there are no promises in the world of investments.

As we start a new quarter, we hope to see a little more of the optimism that pervaded the market in the first quarter of this year. But whether we do or we don't, the fundamental game plan remains the same.

Sincerely,

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