



POTOMAC  
STRATEGIC INVESTMENT

## CAPITOL MARKET REVIEW

In This Issue: Greek Government Teetering on Collapse, Eurozone Debt Package Hangs in the Balance, Europe Scrambles, Investors Sell Stocks and Buy Bonds

At the Close: SPY1220      US10Y 1.98%      Gold \$1716      Oil \$91.42      Nov. 1, 2011

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The Greek Government is teetering on the brink of collapse. In the hours leading to the European open Tuesday, Prime Minister Papandreou appeared to lose his majority, and with it any chance the Greek Parliament would ratify what Eurozone policymakers have been negotiating for months. A wave of selling cascaded throughout Asia, Europe and the US.

Asia equity shares were down nearly 2%. Europe quickly doubled those losses with Germany leading the way at 5%. US stocks closed down nearly 3% and indexes were at their lows at 4pm. US Treasury bonds rallied. The US10Y is again trading below 2%.

Stock, bond and currency traders were glued to news feeds all day as rumors dominated the newsflow. Most traders wanted no part of guessing and sold assets that had just recovered from months of doubt. Most notable in the sell-off were Italian Sovereigns. As noted in earlier CMR's Italy **cannot** fund its nearly \$3 Trillion sovereign portfolio if rates are above 6.5%. Traders are signaling trouble for Greece, Italy and the integrity of the Euro itself by taking key Eurozone sovereigns to yields that are unsustainable.

The other news of the day continues to be the negative fallout over the demise of MF Global; (the brokerage firm run by former Senator, Governor and Goldman Sachs alumni Jon Corzine.) Today it was revealed that Corzine had directly been involved in leveraging the firm through a series of aggressive investments in European sovereign debt, led by a large position in Italian bonds. In addition, and also deeply troubling, news wires also reported that MF Global had apparently used client funds, (funds held in investor accounts,) as collateral to cover losses in the firm's trades. This will prompt further calls for aggressive regulation. Yet use of client funds to support a firm's trading has been illegal for years. What will trigger reform talk is news that MF Global had leveraged its trading account to 40X when major US investment banks are now operating at 15X.

CMR heard one theme today that is cause for concern. Whatever people think of Jon Corzine, he is not an investment neophyte. A number of savvy Wall Street pros have said that Corzine was probably not alone in aggressively trading the Eurozone sovereign market. As yet, no other funds or banks have been singled-out regarding their exposure. Corzine and MF Global were clearly the first, concerns are they will not be the last.

The next few days are again going to challenge investors, central bankers and political leaders alike. The European debt crisis is not solved and will be the central issue of the upcoming G20 Summit. While it is easy to chastise European policymakers, the news in the US is not much better. Today's Congressional Super Committee heard testimony that has global investors nervous as to how the US will handle similar thorny issues that have paralyzed their European counter-parts.