

# The Stock Market Game™



## Week In Review

March 26, 2010

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**That's some PIIG.** Making news in the markets this week was not the adorable Wilbur from [Charlotte's Web](#), but rather Euro zone countries with shaky finances. Specifically, the term PIIGS refers to Portugal, Ireland, Italy, Greece and Spain. Worries that the Greek debt crisis will spread to other PIIGS countries grew as the Fitch ratings service downgraded Portugal's credit rating this week. Yesterday, however, the leaders of [Germany](#), [France](#) and the International Monetary Fund ([IMF](#)) agreed to loan guarantees for Greece in the absence of private capital. Their offer of assistance may put an end to the crisis.

Despite the trouble in Europe, an [uptick](#) in mortgage rates, a downward [revision](#) in GDP growth for the fourth quarter of 2009, and a persistently [sluggish](#) housing market, the march upwards in U.S. equity markets continued. The [NASDAQ](#) and [S&P](#) were up this morning and the [Dow](#) was flirting with the [11,000](#) mark, which was first reached at the height of the Internet boom in 1999. This changed in the afternoon as news of a sunken South Korean navy ship off the coast of North Korea sparked fears of an international incident and ignited an afternoon selloff. Some of the selling was also believed to be caused by money managers attempting to lock in profits as the end of the quarter grows near. A late day rally ended with the Dow up slightly.

So what's the story with these PIIGS and why should you care? Countries, just like people, have credit ratings. When the economic downturn began, Greece's economy suffered and investors began to worry that it may have trouble making the payments on its large amounts of debt. Think of Greece as a two income couple with high credit card balances and one of the couple just lost their job – an all too familiar story these days. You may have seen in the news reports about banks lowering credit limits and raising interest rates on folks with less than perfect credit. That's similar to what is happening to Greece. Investors no longer trust that Greece can meet its obligations and therefore are demanding higher interest rates to purchase their bonds and are investing in less of them.

While Greece is a very small player economically, what the markets are worried about is the spread of another [financial contagion](#), which is when a faltering economy in one country negatively affects stable economies. Often the contagion is limited to a region of the world such as with [Mexico](#) in 1994 and [Asia](#) in 1997. But in 2008 we saw a worldwide contagion due to the U.S. sub-prime mortgage explosion. Markets run on fear and confidence and with the recent worldwide financial crisis fresh in our memories, there may be some exaggerated fear about the outcome in Greece. However, the plan rolled out this week to guarantee its loans seems to have calmed the fears of many a trader. Loan guarantees for countries are like having a co-signer on a mortgage. If you can't pay, the co-signer agrees to pay. France, Germany and the IMF have agreed to extend loan guarantees to Greece if they can't raise private capital (i.e., money from investors) on their own. These moves may help save Greece's bacon and restore confidence to financial markets.

As mentioned, markets are about fear and confidence. Fear sends markets lower, confidence sends them higher. Determining which emotion is driving the market can play an important role in investing. To help your Stock Market Game students better understand this concept, you can download our "Voices of Fear and Confidence" newsletter from the [Teacher Support Center](#). Just click on the Publications link, then choose the *In the News* link. That's all for now.