

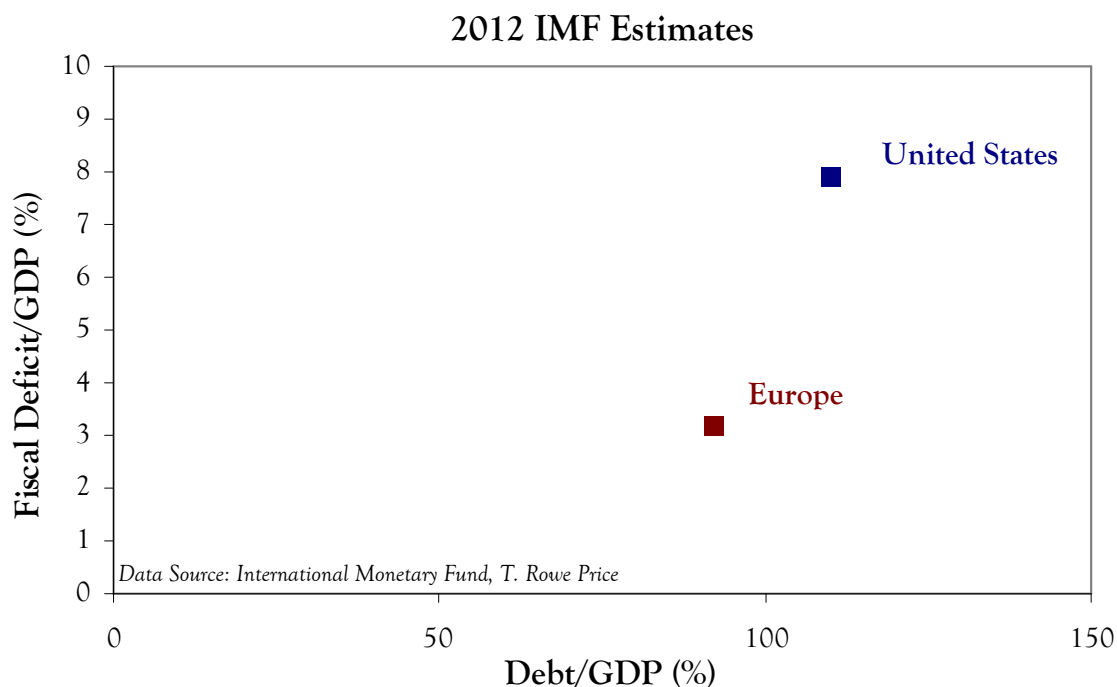


Brian Koble, CFA ®  
 Director of Research  
[www.hefren.com](http://www.hefren.com)

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## Europe vs. the U.S.

The following chart allows one of two interpretations. Either Europe's debt problems are not as intractable as feared, or investors are not paying adequate attention to the fiscal challenges facing the U.S.



Or perhaps both interpretations contain elements of truth. When viewed on an aggregate basis, Europe's debt burden appears to be manageable. However, Europe's Achilles heel has been that policy must be forged across 17 countries, a process that makes America's disjointed politics look facile by comparison. What follows is that Europe has the *ability* to address its crisis, but not yet the political *will*.

The U.S. also has the ability to forcefully address its runaway fiscal issues; however the political will has yet to be summoned. The "exorbitant privilege" associated with the Dollar's reserve currency status has allowed the U.S. to live beyond its means without being subject to the same market discipline as Europe. Accordingly, while Europe's debt woes are front-and-center for the markets, America's own fiscal challenges loom over the horizon, largely unaddressed.

For this reason, we continue to believe that it is prudent for investors to have ample non-U.S. exposure, despite poor performance in 2011.

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