3 lessons from the Greek debt crisis

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The Greek stock exchange reopened on Monday after five weeks offline. It went as expected: badly. Now that the immediate threat of Greece leaving the European Union has passed, for now, what lessons can investors take from the Greek debt crisis?

Global diversification is still good

The world is big. American companies account for only about half of the global stock market. At the end of 2013, non-American equities made up 51% of the world stock market, according to a report from Vanguard.

"Despite the risks overseas it is undeniable that global diversification is good for investors as long they do understand those risks," says Robert Blake, head of global macroeconomics at Finmason, a financial education company that aims to help consumers understand investments.

Investors must understand risks

Governments drowning in debt, astronomical equity valuations and highly correlated global asset classes are just a few of the risks investors must consider today. And that doesn't even touch the industry- and company-level risks that investors take on.

One way to get a sense of the level of risk inherent in any stock investment is through a rigorous course of statistical education. Understanding the standard deviation of an investment's returns and then calculating the correlation to the rest of your portfolio is one way to get a handle on risk.

Failing that, running some scenarios through a site such as FinMason can give investors an idea of how much their portfolio could tank if something such as a Greek exit from the euro were to occur. Figuring out roughly how much risk you are able to withstand and then getting an idea of how much risk you're actually exposed to is all that is necessary, not analytical math skills.

"People are not Wall Street analysts with years and years of training," Finmason's Blake says. "They don't need to understand the mechanics, just whether a 10% drop is something they could live with, or if it is too much."

Too much debt is bad for everyone

The Greek crisis highlighted the importance of understanding country-level risks, in this case in the form of debts. At the end of the day, Greece fell into trouble because it had more debts than it could pay.

"Though Greece is in the most acute pain, other countries across the board, Japan and America do the same thing," says Michael Chadwick, CFP professional with Chadwick Financial Advisors in Connecticut.

That doesn't mean American and Japanese companies should be struck from your portfolio, but a country's debt level should be one factor when evaluating investments.

"A great lesson is to live a simple and low-debt life, and live below your means," Chadwick says.

That is one lesson that can never be repeated often enough.

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