alpha+ capital management

October 2010

The buoyant stock market in September offset earlier weakness and brought nine-month returns to +3% for the S&P 500, +4% for the DJI and about +3.5% for the DJ Global Index.

Now that the economy is on a recovery path, the rate of expansion ought to be tempered by settling onto a consumption level supportable by current income, without large incremental borrowing, and allowing for a modest savings rate. Unexciting, but healthier than the unnaturally pumped conditions in real estate when we were still on the brink of the unraveling.

A bit of excitement probably will be created by an approaching triple whammy: an imminent change in political power, a positive surge in attitudes about the future and a release of suppressed private sector capital spending. Money ought to move out of safe havens, e.g., gold and U.S. Treasuries and into stocks. Inflationary price effects, though still to be experienced, will be lessened. Interest rates probably will be allowed to find market levels which means long bond values will be hurt. This is probably one of the best times in a lifetime to arrange a mortgage, if you need to, and the worst time to buy one.

Decisions about investing and business planning have been postponed by the uncertainty that results when national policy is widely understood to be seriously wrong headed. Corporate spending power is hefty and finances are sound. Clarity is being awaited and that should dawn on November 3rd.

A majority of the public has absorbed enough about the Administration's social agenda to become alarmed at its revolutionary nature. That majority is now taking power. It will vote next month in much larger proportions than its befuddled, demoralized opponents.

The decade of the "tens" will be a rich resource for future scholars because it will display the contention between two opposing attitudes about the role of government.

In one role, the government responds to the fears and uncertainties of life by taking broad responsibility for education, housing, food and medical care to any who qualify. The government also determines what disparity is tolerable between the most and least wealthy segments of the population, and would adjust the excess by redistribution. These believers feel that the central government should control things, that spending is a problem solver and that the right incentives and penalties only have to be discovered and put in place.

The alternative belief is that the greater good is served by a smaller, less costly government which holds social obligations to a level below the maximum financeable; understands the value of free markets, free choice and personal responsibility; and grasps the workings of economics better than the administration's team of leftist ideologues, some of whom are quitting early to avoid the rush.

235 East Broadway, Suite 920 Long Beach, California 90802
Phone 562 435 5650 Facsimile 562 495 0462 alcap.management@verizon.net

The Congress of 2011 may be expected to vote for personal freedom, low taxes, and less intrusion by government. They think that makes fertile ground for business, jobs and prosperity. We agree.

A recent article in the Wall Street Journal *(enclosed)* compares Obama's economic strategy with that of Roosevelt's in the 1930s when stultifying attacks on the economy were unleashed by legislation during the sluggish early aftermath of a recession which followed a poorly financed real estate boom, a situation eerily similar to that of today.

1) Personal taxes were increased.
2) Corporate taxes were increased.
3) Political power held by labor unions grew rapidly.
4) Trade policy turned protectionist.

Many now realize that those tactics not only failed to turn the recession, but instead, depressed it further by scaring anybody responsible for the safekeeping of asset values.

In the shadow of that history, the current government is moving to do all four of the above with another four of its own:

1) Taking control of the banking, medical, and auto industries.
2) Planning a transfer of money, believing it to be the right thing to do, overriding the right of ownership.
3) Spending borrowed money in ways directed by the government.
4) Having the Federal Reserve buy long term US bonds with government credit, called "quantitative easing", a term designed to not inform, perhaps because the meaning is scary: Wikipedia says it's something you do when interest rates are around zero.

Fool us once, shame on you, fool us twice, well, you can't fool us twice. Except, perhaps, for those who just won't get it, about one in three is my guess.

Now, may we donate as never before, and vote as often as possible.

Best regards,

John May