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Tidal waves, earthquakes, nuclear meltdowns, uprisings in a half dozen countries surrounding major world energy flows, and the markets did not care.

Domestic stocks rose in the first quarter, with gains for the Dow, S&P 500 and Nasdaq up 7%, 6% and 5%, respectively. Foreign stocks went up about 3% in the quarter and bonds had modest returns with recent price weakness as interest rates edged upward. The Fed has been forcing liquidity into the economy by bidding up the price of outstanding US debt, on the premise that the economy will benefit if interest rates are suppressed. We have come to the conclusion that the financial guidance we are getting from this government is inept, and that the market, in its peculiar wisdom, regards current policy as temporary.

During the March quarter, focus was on three potent elements: the economy, US political trends, and a wave of revolution. The urge to be rid of dictators is erupting among people in the middle layer of world civilization, who have e-mailed and cell phoned their way to unity and put themselves at risk in the streets in a reach for modern civilization. An emerging pattern is that success is more likely where governments have become reluctant to kill citizens, as in Egypt. Not so in North Korea, China, and perhaps Iran, where the leaders believe in killing people in massive numbers for their own good.

The uprisings would be cause for joy, were it not for fear that the Muslim Brotherhood will grasp the reins as the Communists did a century ago when Russia's democracy sputtered. We are hampered by sketchy information and a tendency to wait and hope. Will it be democracy or Sharia? When a yokel book burner in America can provoke the midnight murder of a family in Israel, anything short of pretty bad might be an improvement.

In any case, our President, once an anti-war candidate, made a personal decision to attack another nation without consulting Congress, even after having eloquently lectured the previous president about his lack of Constitutional authority to make such a decision. Obama diluted the war by promising that it would be "days, not weeks," "no American boots on the ground" and that the US would turn over control to NATO (which is dominated by America). The power to decide was usurped, the war is already weeks old and there are reports of Americans on Libyan ground, presumably with non-boot footwear. So far, our military have killed an unknown number of Libyans while unsure of who is who.

It has become evident that what this President says has an unwavering relationship to the truth. And that has positive weight in the investment markets because it exposes Obama to valid ridicule in the campaign already getting underway. A majority of earlier supporters have learned enough about him to change their mind. Market behavior is pricing in a strong probability that a different set of decision makers will be in place in two years.

With respect to the economy, things are moving along about as one would expect, with industrial activity steadily increasing, incomes moving up slowly, savings rising, employment picking up, and profits and margins looking strong.

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The national discourse about the budget has one side pushing for spending cuts and the other arguing that cutting will cause a recession but raising taxes won't. We believe an affordable budget would encourage business expansion, affirm the dollar as a reliable medium of exchange and the nation as a trustworthy steward. Any compromise that raises taxes would amount to moving in the wrong direction, just more slowly.

The collusive relationship between government worker unions and the government is under attack. Among the most destructive, the SEIU and the teachers unions, support favored politicians with money and street demonstrators in return for voluptuous pension and disability arrangements and protectionist anti-trade policies. Their drive is to force workers to join unions and pay dues, part of which is funneled back to government people chosen by the union leaders, serving the common interests of both to the detriment of the society at large. The whiff of fascism is inspiring an urge for reform.

Although housing construction should stay in the doldrums for years to come, a prominent stimulant will be the energy sector. The drama of global warming, homeless polar bears and a world market in which to buy and sell pollution permits, continues to lose ground. The good news is the imaginations of Al Gore and George Soros will be free to think up new large scale projects to make the world a better place. Meanwhile, the rest of us will be energized by the immense deposits of domestic gas and oil in deep shale formations which have become recoverable through modern directional drilling and production enhancement techniques, now of intense interest at elevated fuel prices. Boom conditions in oil and gas drilling and production may be considered highly probable.

Our next government may be expected to remove obstacles to domestic land and offshore drilling with one caveat: a resumption of full production in the Middle East which brings prices down.

In summary, the outlook for all three: economics, politics and world stability, has brightened. The best assets under the circumstances are stocks, then real estate and inflation protection bonds, if not overpriced. We think gold has gotten over pumped by the public discovery of the inflationary potential created by the recent pace of money creation. The way we see it, inflation probably will accelerate in the period immediately ahead from both government financial bumbling and rising economic activity, and then will relax when a new government brings an understanding of economics and a sense of reality to budgeting, entitlements and taxation. Gold prices should reflect the ebbing of the pace of inflation, but inflation will be with us until ignorance is overcome by enlightenment.

We are pleased to observe that power is reverting to the people, and those who want more power in government hands are a diminishing minority.

Sincerely,

John May