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With all the stressful inputs: War in the Middle East, belligerents developing nuclear weapons, China pushing its weight around, Europe coping with an imbalance of workers and social dependents, the ice caps melting, and the polarized political scene in our country, with all of that, stock prices are substantially higher than they were nine months ago.

So far, the government shutdown has been only mildly intrusive in the daily routine of the nation, but looming weeks ahead is a US debt limit drama. Legislation previously passed by the House and submitted to the Senate would avoid default by honoring bond debt while delaying various other payables. The Administration's position has been to refuse to be so constrained.

The pressure on each side will mount until a temporary accommodation is squeezed out. If the Republicans achieve a bit of legislation in the bargain, they will have gained respect. If not, they will have made a point worth making, and if the Government's medical plan stumbles badly next year, a strong probability, Republicans might then be seen as foresightful to have offered a delay of the program by one year as the price of agreement.

In the past 35 years Congress has raised the debt limit 53 times, and half of the time legislation accompanied the raise. It is a common political tool, used most often by Democrats.

The difference between the two parties is profound. Government spending has been exceeding revenue routinely by some 40%, causing a buildup of debt so large as to exceed our ability to honor. Unless the habit is stopped, it is certain that a financial breakdown would occur. The difficulty is in predicting when and how much financial abuse would finally be too much.

What *ought* to happen is first, cut excess spending and second, restructure social security and government financed medical care so that they are no longer promises that cannot be kept. Data from a recent Congressional Budget Office report indicates that we have 10 years to rationalize our finances, because after that the burden accelerates so fast as to induce harsh, emergency type reactions.

The CBO report showed that we now have 4.4 workers for each retired person and by 2040 it will be only 2.7 people. That's an increase of 63% in the load to be carried by each worker. Our current 50 year olds may be able to accept a big postponement of retirement payments but it would be prohibitive to try it with 60 year olds.

Underlying the nation's difficulty in making it happen are incompatible political agendas and social goals. It is a philosophic contest, winnable in the end only by intelligent, thoughtful people to whom the realities must be exposed. Current events in Greece and Venezuela display the later stages.

A case can be made for a political turn in next year's election followed by a big change in 2016. Until then, the ebbs and flows of the opposing parties will provide the basis for judging the outlook for the economy and the investment markets.

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The good news is that the underlying vitality of the economy looks positive, in that sluggish sales, production and employment reports coexist with rather healthy corporate finances and reasonably priced assets. The combination suggests that business activity would really percolate if it were not suppressed by voluminous new regulations, a drive for higher taxes and visible Presidential antagonism toward the business sector. It is evident that the government wishes to increase in size and power and the number of people becoming concerned is growing.

With respect to investment policy, the assets best suited to the conditions at hand and ahead, in our opinion, are: sensibly financed real estate, common stocks including some international stocks, inflation protected bonds, and short term, good quality corporate bonds.

We shall see.

Sincerely,

John May