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Three major contentions are grinding away and the opposing forces are possibly years away from exhaustion. First is the tribal war in the Middle East between the Shias and Sunnis, with Kurds playing an acquisitive opportunistic role; second is the philosophical struggle between the proponents of free markets and minimal government vs. collectivists who prefer rule by concentrated federal power; and third is the political contention between the major US parties in the critical elections this November and two years later.

There have been other stressful times in the history of the United States, such as during major military engagements which riveted the attention of the nation and the world. But the passage of time has diluted them in comparison with the fundamental restructurings underway right now. Someday, they'll make epic movies about 2014 and the next few years. We, on the other hand, will watch it unfold in real time.

The Middle East is going through an intense period of finding new boundaries through a process of elbowing, in which each tribe attacks its neighbors until finally, stability is worked out. The relative stability of the last century was enforced by European and American power, followed by a selection of dictators capable of suppressing historic antagonisms. But when the series of strong men fell in the past decade, the power was taken up by religion based power structures, except for Egypt where the military is accustomed to running the government. That mix-- ayatollahs, generals, Sunnis and Shias-- is going to interact violently.

Two policy ideas for the USA: Send massive US forces to suppress belligerents and scare off Iran and Russia, and then stay put thereafter as an imperial occupier; or, now that Obama has pulled us out, stay out until it flares up and simmers down sometime later in this century.

Politically, it feels as though the Senate majority will change hands and give evidence of mounting political resistance to the reach of federal power. Obama has displayed his belief that the president ought to do whatever he can get away with. Interestingly, a small but growing number of Democrats disagree.

If the turn of events in the election is favorable, the investment implications would be positive for stocks and real estate because the element of risk will be perceived to have lessened and the future more likely to be healthy. If it goes the other way, the stock market reaction would probably be negative. Gold would rise.

The economy has displayed impressive vitality by expanding in the face of several impediments. Some of these are: new medical insurance laws, intrusive regulations created by rapidly expanding federal agencies, and distortion of the capital markets by means of large repurchases of US Government debt by the Federal Reserve. Some of the potential liquidity created by this control strategy may be one source of the money going into stocks. Another source is money leaving bonds, which now provide insufficient interest payments, in favor of dividend paying stocks.

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Reversal of this policy is likely if political thought evolves the way we expect and the movement of money from those sources should taper off, but market values will continue to reflect underlying corporate performance and the prospect for economic enthusiasm ahead.

The black cloud over the Middle East will clarify in the months and years to come and we will discern the sentiments of the new power-holding groups and whether they are willing to coexist with us. It is pretty obvious that Israel will attract their attention next and a policy crisis will be before us. The use of nuclear weapons becomes very possible if Israel's existence is credibly threatened. Foreign policy and international allegiances seem to have become more fluid of late and we find it to be not predictable as to how the US would respond to a flare-up there.

On a less dismal note, the annual celebration of our Nation's birth made me realize that we need to adopt one more holiday...this one to celebrate the realization of energy independence. There is little public grasp of the massive blessing bestowed upon us by Mother Nature and delivered to us by the oil and gas industry with its advances in drilling technology. In the past decade or so, the industry has discovered enough North American deposits to make us self-sufficient in energy. That's sure to be part of the upcoming story of the blossoming of the United States.

Sincerely,

John May