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July 10th, 2017

The DJ index rose 8% in the first half of 2017 and is priced at about 20 times latest 12 month earnings. US personal income and consumption are up 4% and inflation is running at a benign 2% rate. Stock prices are high, as they ought to be, considering the health of the domestic economy, relatively benign political conditions and an orderly mood in international relations suggesting minimal upsets to worldwide commerce.

The only intense trouble in the world is in the Middle East, where the last remainders of ISIS are being suppressed in Syria, after which the world may enjoy an atypical condition of peacefulness lasting who knows how long. Impulses toward war historically had been induced by the territorial ambitions of yesterday's fascism and communism, but now there are barriers to such concentrations of power in the form of modern communications, accepted principles of personal freedom and expanded worldwide literacy which arguably immunize us from future Hitlers, Stalins and Khomeinis. The once belligerent China, now commercialized, leaves only Russia and Iran being run by old style despots. They may be tempted by thoughts of dominion over Middle East riches. That is the dangerous hot spot, as war may be seen as worth fighting because of the natural resources, even though America has become able to produce enough oil and gas for home consumption.

South America and Africa tend to be less of a concern, as their economic potential is less developed and their societies lag behind Europe and North America by two or three generations. The least of the problems is that of N Korea where leader Kim Jong Un now has a rocket able to reach Alaska, a risk which might be offset for under \$10 million by offering Dennis Rodman \$9 million to show his friend some new karate holds.

The European economy may be restrained for a while longer owing to dwindling birth rates but the influx of youthful newcomers fleeing northward on foot from Africa will inject new vitality, encouraging a moderate resurgence of economic growth.

We see the US political scene as wholesome, a view which may not yet be widely shared. But if the legislative branches settle down and do the obvious, we can be on the forefront of a decade of growth. Imagine the combined effect of a surge of infrastructure renewal, a less suppressive tax structure and a more self-serving attitude toward international trade practices.

Strangely, it has become difficult to read the political crosscurrents among young American voters. In the last election they seemed unexcited either by Bernie Sanders' socialism or Hillary's warmth and it's hard to imagine that they grasp the complex, natural productivity of free market capitalism and enlightened personal responsibility. The sales pitch we worry about is: The government's job is to give the people, safety, economic support and a good pension with medical coverage. That's a vote getter.

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A hopeful assumption is that among the forthcoming generations of Americans will be a proportion smart enough to understand economics and ethics and to reject flawed political leadership. We will need that caliber of people to deal with our only scary problem: the national debt. The solution is simple: balanced budgets. But, that requires judgment and restraint.

A key factor in the mix is the very low interest rate phenomenon which was engineered by the Federal Reserve. It helped to restore health to the construction and banking industries after the housing finance debacle in 2009 and has coincided with a gentle rise in economic growth, employment and wages, all the while free from overheating as evidenced by the subdued rate of inflation. This is the equivalent to a state of “economic heaven” in which the sun shines all day and everything is free for the taking.

In conclusion, the logical expectation is for interest rates and inflation to rise, and the stock and bond markets to decline. This may take some time to develop fully, perhaps years, and in between there is room for stocks to go from fully valued to overvalued.

With the year half over, and with realization that conditions can change unexpectedly, it still makes sense, in our opinion, to expect a satisfactory result for all of 2017.

Enjoy the summer.

Sincerely,

John May