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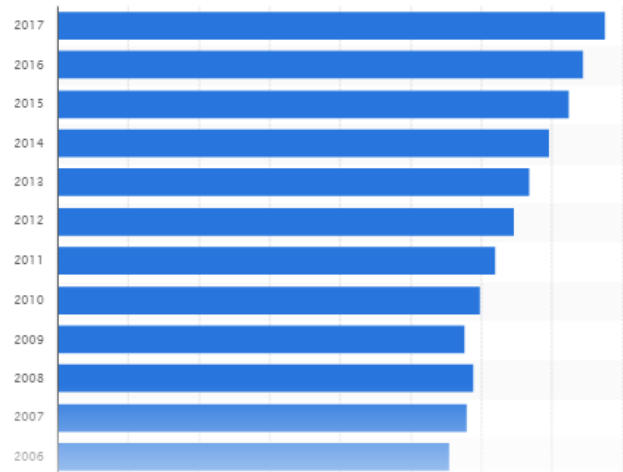
Strangely enough in this world of continuing evolution, nothing much has changed in the past three months. All of the ingredients are in the stewpot, but on a simmer as distinct from a boil. The economy looks like it will continue expanding in an orderly, maintainable manner over the coming two years or so, the span of time which seems within our limited range of prognosis.

The left chart depicts the expansion of the US economy over the past dozen years, including the acceleration and retreat in the years preceding 2009, brought about by a wave of money creation and exuberant pricing of equities and real estate which then gave way to volatility and readjustment followed by the recovery and advance of prices of more recent years.

DOW JONES INDUSTRIAL AVERAGE HISTORY



U.S. GDP 2006 TO 2017



Although stock PE ratios and real estate prices are on the high side by historic norms, it is obvious that times are good right now and optimistic attitudes prevail. Our decade long period of prosperity encourages the notion that conditions will stay that way; the element of risk tends to be downplayed while a comfortable optimism sets in. Diligence, therefore, requires a sensitivity to possible problems ahead.

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Three important economic factors: tax rates, interest rates and corporate earnings expectations are in wholesome territory but there is room for unfavorable surprise to show up in key areas: interactions among foreign nations, consumer finances and domestic politics, all of which still are comfortably benign for the time being.

The political scene is among the more changeable but the next major election is still distant. Some concern surrounds the subject of gender politics, as evidenced by the Me Too movement, the flurry of stories about Supreme Court nominee Brett Kavanaugh's teenage social life and the State of California requiring females be included on corporate boards. The risk here is that if one political party can be seen as being more female-oriented than the other, the resulting effect on voting patterns could be meaningful. Whether that's good or bad will be determined by hindsight but in the meantime there is a basis for a bit of nervousness and instability in the political arena.

Internationally, the long standing hot spots seem to be a bit less hot. Middle East violence is easing and may well sputter out, and the possibility of worldwide oil shortage has dimmed. Those who control oil have a strong propensity to sell it for cash.

Russia, under the dictates of Vladimir Putin, is appearing more benign after his sudden aggression against the Ukraine in 2014, and North Korea has transformed its presence on the world stage from an impoverished but militarily potent, unpredictable entity to a friendly communicant writing nice letters to President Trump. Apparently, a deal is in the works that swaps an easing of tensions with an array of economic benefits for the last embarrassingly laggard nation in all of Asia.

The comfortable absence of warning signs relating to the economic cycle suggests that we are still a long way from a downward shift. That prognosis should be confirmed by the business tempo of the upcoming holiday season.

Sincerely,

John May