

# alpha+ capital management

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Even with an array of distractions such as Central American migration into the United States, economic slowdown in China and Europe and two years of the “Russia Collusion” political smokescreen, the US economy continues to move along steadily. The buoyancy in stock prices still shows little sign of aging and the bull market may still have years to go before evidence of economic stress (rates of inflation, interest and wages) become worrisome.

The S&P 500 PE ratio is about 17 times expected 2019 earnings, not cheap but also not unduly high in relation to the prosperity. Aside from economic considerations, the outlook for domestic and international politics seems comfortable with benign political gridlock at home and diminishing potential for warlike behavior abroad. The new fluidity within the international sector seems to be underway in a relaxed, non-destructive manner and we know of no ominous signs or theories to cause concern for stability.

The possibility of future shrinkage of US tax rates is a refreshing development, unusual in modern history, and a marked contrast with competing political ideas which seek, through rising taxation, to flatten wealth distribution and transfer more of the responsibility of life decision making from individual people to government bureaus.

Fortunately, access to modern information systems enables our society to grasp the difference between free market and socialist systems. The history of recent decades is rich with the spectacular failures of the USSR and Communist China, and in present time, the probable conversion of North Korea.

Social policy in America has become benignly practical, pretty well understood by our citizens and unlikely to change very much, in our opinion. If we are wrong and the 2020 elections give rise to the sweeping proposals of the left for free public college education, free medical care and free income for all, then the apple cart will definitely be upset.

We make the likelihood of this to be small, however, and fully expect the next two years to be pretty smooth sailing.

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Concern about the suppression of commerce between the US and Mexico has surfaced in the news, but little analysis is evident regarding what actually would happen if migration across the Southern border is halted by fencing or troop placement. The substantial two way flow of commerce is done by truck and rail, and unless that is more than temporarily impeded, it is hard to see how the transition from open border to closed would have much effect.

One notion of forces that would shape our economy is the likelihood of a diminished need for American military spending. (Imagine an internationally financed army of peace keepers available to suppress violence anywhere on the planet.) Perhaps the day of massive warfare has ended. If so, that would permit a reduction in our nation's military spending, around \$600 billion a year, or around half of the total budget.

Barring a major resurgence of ISIS or other terrorism, a period of reduced conflict in the world may lead to lower taxes which would bolster consumption, savings and investment, each of which are enablers of prosperity. Competing spending alternatives would include a surge in space exploration with extra-planetary bases, and, closer to home, increased social support programs.

A final thought on imagining the future could be the forthcoming benefits of new inventions and technologies. Humanity has been scientifically prolific over the past 500 years and if the trend continues there are bound to be some truly wonderful things ahead. Recall the impact of television in the past century: it's as prevalent now as indoor plumbing, itself a rarity a mere century ago. A case in point, I just read an article about how CO2 can be removed from air at a cost of around \$100 a ton.

With respect to the investment outlook, the flow of liquidity is expected to continue until economic pressures force a change toward tighter money conditions and, at this time, I don't see anything of that sort on the horizon.

Looking forward to a peaceful, productive summer.

Sincerely,

John May