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The winning political slogan of the election quickly became ironic in light of the painful changes in the economy and the markets. We are coming to grips with a one third markdown of wealth in the world's first unified financial deflation which involved all asset classes and included a brief flight from the dollar. The \$50 billion con run by an amiable, trustworthy looking gent was the cherry on the sundae.

Now that the credit induced asset inflation has crested and fallen, our focus is on the two phases to come: first is the recession itself, which now may be one-third to one-half complete, and may still require decisions as to what is to be subsidized and what left to wither. Emergency triage is giving way to supportive measures such as giving money to the needy and taking up responsibilities previously borne by the private sector. This phase includes forming economic policy on taxation, labor and foreign trade and figuring out how much government ownership and management of finance, medical care and manufacturing the country can stand.

Those who study such things will have plenty to absorb and clues to the future will abound. At the end of this phase will lie opportunities to participate in an initial repricing of assets which ought to happen when the flight to Treasuries subsides and bargain hunting asserts itself. That seems to be the period we are entering now. The spreads between Treasury yields and high grade corporate bond yields are likely to narrow and stocks should be buoyant.

Real estate values may be two years from troughing after a lengthy upswing exaggerated by years of unsound financing with government blessings and lubricated by newly invented securities and risk control insurance.

The leveraged hyper performance programs known as "hedge funds" attracted many investors, both personal and institutional, who did not comprehend the complexities of the ventures they were buying into nor the risks undertaken. Some of the schemes were flawed in their long term reliance on a temporary availability of cheap short term credit, others made promises beyond what they could keep and there may have been some who were deliberately parasitic and unethical.

Gut feel suggests that stock prices bottomed in November, and logic agrees. An air of crisis was brought on by an overload of simultaneous business failures, a steep ascent of commodity prices led spectacularly by oil and rush to dump dollars, all symptoms of an asset *mania* followed by a price break and a classic *panic* with a reverse rush back into dollars and US Treasuries and all of this happening during an intense US election with major change of political leadership.

Since then, we have watched the world's money men energetically restoring liquidity by an outpouring of money and credit, as if into a vast sponge, and now we are seeing signs that the sponge is filling. The major source of risk will pass from liquidity to economic activity, and the profit level that will be sustainable in the next five years. And for now, at least, political tensions have been eased by the President Elect's thoughtful demeanor and his choices of familiar, experienced team members with only

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a few that bring a wince. World decision makers are pretty much unanimous in wanting to revive the financial system and seem willing to listen to any good ideas.

The second phase would include the resumption of economic growth, its timing and nature. Chief among the considerations is a probable change in the rate of inflation, how one should cope with it and perhaps even harness it as a predictable phenomenon. An appropriate position during a lively inflation would be that of an owner of diversified equities, including real estate with a manageable quantity of long term low fixed interest rate debt, and possibly anchored by a position in precious metals linked securities.

The entire experience has been so disquieting as to subdue normal public resistance to expanding government power. We have seen some early clues to future policy in plans for government funded medical care, issuance of free money to the public, abrogation of contracts for the public good, and an appetite to transfer wealth from those who have it to those who want it.

We are forewarned that a similar pattern will show up elsewhere, and will have to watch and evaluate as we go.

John May