alpha+ capital management

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Stable while under provocation is an apt description of recent stock market behavior. One discernable force has been the practice of the Federal Reserve of purchasing US Government bonds which injects liquidity into the banking system and reduces interest rates to levels approaching zero, which deprives bond holders of a normal rate of return and induces leakage of cash into the stock and real estate markets, thereby elevating prices at least moderately.

Consider the potential influence of these events:
Britain's decision to separate from the EU;
Acts of terrorism becoming more numerous and widespread;
Economic prospects looking sluggish in the US and worse in Europe;
US political leadership soon to change.

"Brexit", in our opinion, is an act of sanity. One of the world's more prosperous nations, Britain has become uneasy with the legal and financial obligations imposed by the EU power structure in Brussels. The benign stock market reaction seems to reflect the attitude that the separation will not be overly disruptive and that after a year or so, Britain's economic tempo will return to normal. Apparently, the public's desire for political independence is as steadfast as the bureacratic tendency to seek more power and write more rules. Although the exit, by itself, will not restore Britain's health, it does relieve the financial drain imposed by EU membership.

The European economy is burdened by an aging population, large pension and welfare expenditures and pervasive growth in other government spending, accompanied by heavy taxes, large deficits and rising debt. Only Germany enjoys economic health by avoiding government overspending and creating work opportunities for waves of migrants from the troubled Middle East, in defiance of risks from the jihadists who surely must be among them.

The southern tier of the EU nations: Greece, Italy and France, are becoming less secure as social programs expand, making it difficult to afford domestic military protection on the vulnerable Eastern and Southern borders and relying on NATO instead, which is financed largely by America.

To sum it up, it appears that the EU is drifting toward financial deterioration, caused by exessive welfare, unfortunate demographics and inadequate self defense (especially if the US withdraws from being the world police force). The impediments should extend the economic malaise for several more years. Further down the road, a decade from now perhaps, the EU economy, bolstered by its expanding migrant work force, may again have the potential to revive, but only if accompanied by lower taxation, reduced social programs and free market capitalism. That would require a political miracle.

Unfortunately, the US is not far behind the EU curve for similar reasons with different names: Medicare, Medicaid, Social Security and a host of aid and grant programs too numerous to name. A recent politically motivated idea which would further suppress the economic machinery is to increase the minimum wage to $15 an hour.

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We believe that nearly all such interferences with the natural interactions among participants in a free economy are detrimental to all but the bureaucrats who absorb a growing proportion of economic output while turning out new regulations in what appears to be an inherent human tendency to believe that more is better. With government debt nearing $20 trillion, we can see no other alternative to an accelleration of inflation. It is the only rational way to deal with debt repayment, and the faster the inflation the easier the debt.

Even this may change however, as the political season is upon us and two potential paths lie ahead. One candidate offers a continuation of the dominance of government oversight and control while the other candidate promises greatness. We can imagine an array of possible outcomes but are unable to predict any single one.

Accordingly, we believe appropriately financed real estate, diversified stock holdings, inlation protected bonds and precious metals are the viable investments.

Have a good summer.

Sincerely,

John May