alpha+ capital management

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The recent behavior of the stock market bears a similarity to the tidal action of the ocean, specifically the relaxed period between ebb and flow when a mere breeze can move a boat. Lately, every time Fed chief Janet Yellen breathes it flutters the market's sails, and when she actually says something it can move the Dow 50 points.

A few weeks ago after a solid hint that the Fed was going to start the return to interest rate normalcy, the Dow Average dropped 400 points. That suggests that an accumulation of stocks is in the hands of opportunistic short term holders such as hedge funds, which are capable of borrowing large sums at low rates to carry stock positions which can be liquidated any time the breeze blows the wrong way.

A contributing factor to the recent price stability is the sense that we are waiting for the outcomes of several unfolding events, the most obvious being the election contest between two presidential candidates about whom not much can be predicted with certainty…with one promising higher taxes and more spending while the other promises lower taxes and more spending.

Another influence is the performance of the economies of world players with Europe growing anemically under a heavy debt burden and preparing for the departure of Britain, China trying to maintain full employment while seeking new customers to absorb its manufacturing capacity, and America growing at an annual rate of two to three percent while hoping for economic impetus from its next elected government.

Add to the mix Russia, allied with Iran in an aggressive strategy to control Middle Eastern oil territories, bombing Syria and funding attacks on Saudi Arabia while the world stands by complaining mildly. Imagine the oil price machinations available to that team once they establish their new power.

Perhaps most pernicious is the artificial suppression of interest rates by the Administration and Fed in the hope that low rates will stimulate consumption and economic activity. The method is to have the Fed purchase unlimited amounts of US Government bonds and even corporate bonds to drive prices up and yields down. Apparently, our decision makers have a distorted understanding of economics and too much faith in one economic tool which they overuse because they do not know what else to do.

Our observation is that there are substantial differences between what ought to be done to encourage economic health and what probably will be done when new hands take the tiller.

What they ought to do, in our opinion, would be to identify the suppressive laws and regulations that dampen business by way of higher minimum wages, large new medical expenses and expanded welfare programs. A public analysis of US trade tariffs should be undertaken to identify flaws which hamper our prosperity, followed by sensible adjustments. A one-third reduction in the size of our central government seems about right.

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Interest rates should be allowed to change in response to free market forces of supply and demand, rather than the whims of politically selected chairmen. Consider the ethics of the wipeout of buying power of persons holding investments designed to throw off interest income, with savings accounts that used to yield at least 3% and good quality bonds 5%.

That combination of positive elements would provide the impetus for more robust growth. And that would provide the foundation for an advance in the rate of inflation, which we believe to be the only legal route to coping with the runaway national debt.

When the weight of those impositions eases, personal and corporate tax rates should be reduced.

Then, stand by and watch prosperity flower.

John May