alpha+ capital management

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Stock values are at record levels and that's where they ought to be, considering three big strong points: economic health, political stability and a diminished level of antagonistic behavior among major nations. Perhaps the current condition will, at some time in the future, be referred to as "the good old days." On the other hand, a closer look reveals strengths that justify optimism, as expressed by the current relationship of stock prices to expected earnings per share of around 16 times. In our experience 19 or 20 is high, and 14 is cheap, so 16 is reasonable as PE ratios go. But there is another area of vulnerability and that is: How will actual 2020 earnings compare with what is currently expected? If prosperity falters, earnings per share will decline and stock prices will too.

Under these circumstances, what is the appropriate strategy? We think logic says hold, (It would not be illogical to create a small cash reserve for reinvestment if prices do come down, temporarily, by maybe 20% or so.) Although stock market "players" might be tempted, long term investors should hold, as the decline would likely be short lived.

With respect to the economy, a new element has been developing which is a bit worrisome: While the American economy appears likely to stay robust, Europe and China are faltering, with Europe moving away from a unified status and back toward individual nationhood and China pulling back from a multi-year wave of expanding consumption and investment. Japan is stable and growing slowly. South America and Africa are less predictable and are at the lower end of the comparisons.

That mixed bag suggests that US growth will range between slow and moderate for the foreseeable future. Another reality exists: the US government leadership seems ready and willing to step into any economic breach with resort to cash injections, tax relief and use of the tariff weapon to moderate aggressive foreign competition. The President has demonstrated little hesitancy to take action with respect to tariffs, military deployment and immigration control and we would expect similar behavior should an economic need arise.

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Given that set of realities, the probable longevity of the prosperity is a prominent factor in determining the investment merit of stocks at 16 times estimated earnings. We are comfortable with that ratio and think the most logical path for stock values would be tilted mildly upward over the next year or so.

It is a bit early to contemplate political influence on the economy subsequent to the current presidential term except to note that a comfortable complacency has set in and that the opposition has not yet brought forth a leadership team with a cohesive set of legislative plans, other than free immigration, free medical care, free college education and issuance of $1000 a month to everyone. Special attention will be focused on the positive effects brought about by the proposed reductions in personal and corporate tax rates. Still to be experienced is the output of legislation in the year ahead and so far nothing untoward seems likely, but surprises from the closely divided House and Senate are possible.

Barring the possibility of a flare up of war in the Middle East or North Korea, the remainder of the current political term does not appear worrisome and prospects for the 2020 election are too far away to predict comfortably, except to note that a continuation of the current leadership seems more likely than not. And, with respect to the specter of war itself, the atmosphere has eased from earlier tension to friendly gestures and expanding trade. In sum, it looks like green lights ahead.

Best wishes for a pleasant summer.

John May