



ALJIAN CAPITAL MANAGEMENT

April 1, 2016

Hello Friends,

Hard to believe, but it's already 2nd quarter 2016 and the presidential election is only seven months away. I don't know who invented the process of how we select the nominee for each party, but it seems like a very strange system of primaries, caucuses, and super delegates. I still have a hard time understanding how the caucus system works. On the Democrat side, it's been mostly friendly without much drama, but the Republican primary process has been one for the ages. In the event that Trump ends up facing off against Clinton in the general election, I'm anticipating a Godzilla vs. King Kong marathon. Both candidates are likely to take the debates into the gutter with vulgarities and attacks that no one could have imagined.

2015 was a difficult year for stocks as both the S&P 500 and Dow had modest declines while the NASDAQ was up few percentage points. In the first quarter of 2016, it has been the opposite, both the Dow and S&P are up 1% and the NASDAQ is down 2%. What this really says is that everything has been flat for a long while and trying to make money has been a challenge. I certainly don't know how the financial markets will trend for the next nine months, and I don't know if the markets will prefer Trump or Clinton, but I just want to take more caution to protect the current valuation of all of the accounts that I manage.

My present day strategy is to increase my allocation of tax free municipal bonds. I find muni bonds an attractive investment for many reasons. First, and foremost, all of the interest earned is exempt from Federal taxes and usually State income taxes too. The politics of the Left are to raise tax rates, so a great way to avoid participating in the grand redistribution of wealth scheme is to convert taxable interest to tax free interest. As an example, a high net worth investor could put \$5 million to work in tax free bonds and earn about \$150,000 annually and pay zero tax. Normal disclosure: Check with your tax advisor.

Second, the credit quality on tax free municipal bonds has improved since the 2008 financial panic. Back in those days, just about everything was AAA rated and insured. We found out later that the ratings were inflated and the insurance backing the bonds was questionable. I was fortunate as I had only a tiny number of bonds that became vulnerable to the crisis and I promptly sold bonds issued by Pinole and Hercules, California. More recently, I sold bonds issued by Chicago. These days, I evaluate the credit quality as though there is no insurance and I don't trust the rating agencies. I stay in municipalities that I know, issues like East Bay MUD, Contra Costa Water, State of California, San Francisco Airport, and San Francisco Sewer just to name a few. I would buy a Beverly Hills bond before I would buy a Stockton bond, not that there is anything wrong with Stockton, I just have more confidence that Beverly Hills will honor the terms of their debt.

In the old days, if a client wanted to invest \$200,000 into muni bonds, I might have put \$50,000 into four different issues. Today, I would likely invest \$20,000 into 10 different issues. The extra diversification costs nothing extra and offers an additional layer of protection. For every investment that I make today, whether it be a stock or bond, I carefully evaluate the risk. \$200,000 in tax free bonds earns about \$6000 per year with no tax on the interest.

So with all of this in mind, enclosed is a list of several current municipal bond offerings from the Schwab inventory. All of the bonds are subject to prior sale, and the actual price of the bond could change prior to purchase. Schwab charges \$1 commission per bond. Bonds are offered at \$1000 par value and must be purchased in increments of five. And as always, I'm available anytime to explain in greater detail or answer any questions. Just call. Thanks.

Sincerely,
Jim Aljian

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**Tax Free Municipal Bond Offerings
Schwab Inventory
3/31/16**

State Of California, rated AA-, 3.00% coupon, maturity 9-1-33, price \$995.60 per bond, yield to maturity 3.033%, callable at 1000.00 on 9-1-26

Los Angeles Public Works, rated AA, 3.125% coupon, maturity 12-1-31, price \$1017.77 per bond, yield to call 3.071%, callable at 1000.00 on 12-1-25

San Ramon Valley Unified School District, rated AA, 3.00% coupon, maturity 8-1-31, price \$1010.82 per bond, yield to call 2.912%, callable at \$1000 on 8-1-23

San Francisco City and County General Obligation, rated AA+, 3.25% coupon, maturity 6-15-31, price \$1027.04 per bond, yield to call 3.026%, callable at \$1000 on 6-15-20

Contra Costa Water Revenue, rated AA+, 3.00% coupon, maturity 10-1-28, price \$1039.90 per bond, yield to call 2.623%, callable at \$1000 on 10-1-22

University of California, rated AA-, 4.00% coupon, maturity 5-15-45, price \$1085.16 per bond, yield to call 2.924%, callable at \$1000 on 5-1-25

San Mateo Foster City School District, rated AA, 4.00% coupon, maturity 8-1-44, price \$1087.77 per bond, yield to call 2.918%, callable at \$1000 on 8-1-25

Notes:

All ratings are from S&P, please call for Moody's rating

All bonds are subject to prior sale

Bond prices subject to change