



October 1, 2016

Hello Friends,

Houston, we have a problem. On January 20, 2017 we will inaugurate our 45th president of the United States and that person will be either Hillary Clinton or Donald Trump. I can't imagine how either one of those two will lead us to the Promised Land by the time we have the next election in 2020. We face a period of political anarchy.

When I was a young boy, I remember the Presidential terms of Dwight Eisenhower and Jack Kennedy. It seemed as if everyone treated the office of the President with respect and dignity. Not anymore. Clinton and Trump have been attacked relentlessly and it seems as if the election process is in chaos. Should Clinton win, the attacks on her regarding Benghazi, classified emails, and the Foundation will not end, it will probably intensify. And if Trump wins, I just hope we can get through the next four years without a nuclear war.

What I see happening is a period of civil unrest. It doesn't matter who wins, but the politically correct, the politically incorrect, Black Lives Matter, right wing nut jobs, NRA, Planned Parenthood, Sierra Club, and Occupy Wall St. are all going to be fighting each other with increased hostility and violence. I just can't see either Clinton or Trump providing the leadership that would bring the different groups together. I believe that the arguing and fighting will just get worse than it is today.

I also believe that the US economy is in much worse shape than the economic data would suggest. It is my opinion that the employment figures are a hoax and that the unemployment rate is much higher than reported. I don't believe the government data for wage growth and I believe that most American's have less money to spend today than they did 6 or 8 years ago. The government keeps telling us that there is no inflation but perhaps the cost of health insurance, or pharmaceuticals, or real estate property taxes are not part of the calculations. When was the last time Starbucks reduced the price for a latte?

After the election, the political climate is likely to get so bad, that both Democrats and Republicans will kick off their campaign for 2020 even earlier than in past cycles. I predict that whoever wins in November will be just a one term president. In fact, I don't think that either Clinton or Trump will even be able to win their party's nomination in 2020. Clinton had only one real challenger for 2016, but I can envision a dozen or so prominent Democrats stepping up and trying to seize power in light of her unpopularity. And for Trump, I don't know if he will be able to make it through a four-year term without an impeachment trial.

I have another worry. The Fed's decision to keep interest rates at near zero is problematic for the economy. Pension funds and insurance companies have based future payment obligations on certain interest rate assumptions. They can probably struggle through a year or two with zero rates, but if zero is the new normal, I think that there is significant risk that grandma will stop getting her pension check from a bankrupt municipality or insurance company. But if the Fed decides to raise rates back up to historical norms, then they run the risk of engineering a recession.

I could go on for another four or five pages discussing politics and the economy. The bottom line is that the portfolio decisions that I am making today are more conservative and risk averse than in years past. I have been increasing my weighting in tax free municipal bonds, buying short term CDs, writing call options against long stock positions, and buying inverse ETFs that represent a short position for the three major indices. In the event that the Dow were to decline a couple of thousand points or so, then I would likely unwind the hedges and buy shares of my favorite stocks.

As always, please call or email anytime if you would like to discuss strategy or situations that are unique to your situation. I am always available to meet anytime one on one at your convenience.

Sincerely,
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