

October 1, 2021

Hello Friends,

My college major was in Economics and there was one class that was particularly challenging titled Money Banking and Credit. There were only 8 or 10 students in the class and the professor was relentless in his pursuit of the subject matter. We had exams, term papers, homework, lively class debate and a massive amount of textbook reading with no Cliff Notes. At the end of the semester, I was elated to earn a C and I still have nightmares to this day about Money Banking and Credit. Fifty years later, I can assure you that I have forgotten at least 99% of the subject matter along with everything else in all those other Economic courses.

But since I didn't forget a 100%, I am alarmed at our governments persistent trillion dollar spending packages. It seems as if every month another trillion or two is spent and the government doesn't even have the money. They simply just create a trillion dollars out of thin air. To give you an idea of the size of a trillion, a trillion seconds is the equivalent of 31,710 years, or at a time when the Neanderthals first inhabited Europe. And if you're wondering what comes after a trillion, it's Quadrillion and after that it's Quintillion and on and on. There is no end to large numbers, and it appears that there is no end to government spending.

Our government does want to initiate various tax increases to cover a portion of the new spending. It has been proposed that the capital gains tax rate be increased to 43%, a corporate tax increase to 28%, and the top income tax rate to 39.6%. Also, at the time of someone's death, the government wants to tax unrealized gains on assets as if a sale had taken place even though nothing might have been sold. They also want to eliminate the step up in basis rule. They claim that they will only raise taxes on the "wealthy", but I fear that their definition of "wealthy" is anyone with a job. This is the same government that told us gas tax money would be used to build and repair roads and that lottery proceeds would go to the schools. If you haven't figured this out yet, Government is not truthful.

In my opinion, all this misguided government spending and taxing takes us into a new inflationary cycle with slow or no growth. There's a word for that, it's called stagflation. The Fed chair, Jay Powell, is behind the curve and should be raising rates now to fend off the inflationary cycle that is already in its early stages. But Powell's term is up for renewal in 2022 and there is no chance that he would be reappointed if he started raising rates in front of his nomination to a possible second term.

On the positive side of the ledger, companies like Google, Apple, Microsoft, Nvidia, Amazon and about 20 others continue to roll out innovation that is transforming our lives while creating greater efficiencies for business to generate greater earnings. It seems as if these companies continue to make an obscene amount of money despite all the government headwinds.

The question at hand, will stagflation drive the market lower, or will strong corporate profits continue to accelerate and keep the market averages lifting higher? Well, I certainly don't have that answer but I know that I prefer a lower risk profile in the accounts that I manage. I mentioned some of those maneuvers in last quarters letter, and I continue to build a position in the inverse short position for the S&P 500 along with more tax free bonds, more Treasury securities and more CDs. And in the event of a 3000 or 5000 point drop in the Dow, then I would reverse those positions and perhaps get a bit friskier with a few new purchases.

If you have any questions about anything, just call or email and I'll do my best to further explain my strategy. And if you have kids or grandkids in college, do not let them take Money Banking and Credit. Thank you for your continued confidence that you have placed with Jessica and me.

Sincerely,
Jim Aljian