



Government Policy Is Filling Our Worry Closet

Saturday's With Jim

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Dear Friends,

We have often mentioned "policy" - what governments and central banks do in the performance of their functions - as a risk factor alongside other risks we know. Federal Reserve rate increase risk is well known and documented - the Fed tends to raise rates above those which the economy can withstand and a recession ensues. Additional to Federal Reserve policy risk from rising interest rates, we are now facing possible executive branch policy mistakes which could impact us as investors and savers more directly in trade policy and foreign policy than the invasion of Iraq in 2003 did.

The security arrangements formed post WW II ceased to have cogency after the 1989 fall of the Soviet Union. It now appears that the American security guarantee is becoming the "Emperor with no clothes" in that other countries are wondering if the U.S. will indeed come to its aid if attacked. The world is a more dangerous place a la pre-1914, with a hegemon turning inward and a challenger emerging - China. Trade policy has assumed center stage. The President is removing the sense of certainty that allowed company managers to make longer-term decisions about plant, equipment and personnel with policies that seem tactical and bilateral rather than strategic and comprehensive. Perhaps his tariffs are a warning shot across the bow of trading partners, but perhaps they are but the opening gambit in an effort to put the final nails in the global coffin of the trading system that has become familiar to all of us.

Surely countries have a duty to their residents to make policies which benefit them, but it is by no means certain what the administrations end goals are. It is not our place to take political sides, but we must note that policies enacted this year if continued and expanded create an uncertainty which could affect all of our investments - stocks, bonds, commodities and real estate. Financial markets eventually adjust to uncertainty and disruption by going sideways or going down before they can sense a new, permanent reality beyond disruption.

Accordingly, as we previously mentioned, we have removed a bit of risk from all of your accounts, though we are nowhere near in a maximal protective position. Uncertainty and disruption means volatility as markets adjust to the news du jour. Capitalism is a marvelous system for efficiently allocating economic resources, but it needs predictable government policy, not just disruptive episodic moves, to function at its best.

After the policy dust settles, a new order might emerge which represents the realities of today, not those of the 1960's. In the meantime, though, we think it prudent to be more in protective mode than in expansive and growth mode.

Thank you for investing with us.

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