



Will Teddy Roosevelt Reincarnate in 2018?

Saturday's With Jim

By Jim Pursley
President and CIO, Gaia Capital Management, Inc.
www.gaiacapital.com
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Dear Friends,

Expect a move to Progressivism II beginning with the 2018 election. If we are right, government will enact domestic programs aimed at serious redress of the income inequality that has pervaded the land for some four decades. We view restoring upward mobility and lifting the absolute and relative incomes of the lower and middle income groups in our society as a big net positive, with collateral effects for investors like us. This writing shares how we are preparing for a multi-generational shift in the political winds.

If Past Is Prologue

If progressives like Bernie Sanders and Elizabeth Warren ascend to political office in large enough numbers in the local and Congressional elections of 2018, we will have our first glimpses of how State power may be used to raise the incomes of the lower and middle classes. We don't think that the Republican majority will enact legislation which will effectively combat income inequality, for all of the populist noises of our President, prior to the 2018 elections. Right now we have naught but tea leaves, but positioning for 2018 will begin soon. We will be watching.

Why a Move to Progressive Politics Is a Big Deal

Any large change from the current style of politics which has encouraged fewer and fewer and bigger and bigger companies is likely to have some aftershocks. Tightening antitrust laws may hurt some large companies, like tech favorites and some industrials/consumer companies, but it won't spell the end for us as investors. It will surely benefit us as consumers and as workers, and that in itself may be good for earnings of companies beyond today's leaders. We expect to see small and midsized companies assume greater market leadership than they have shown since the recovery began in 2009 (save for 2013) and expect the global economy to continue to grow well, supporting our investments in overseas developed and emerging country stocks and bonds.

But can they pull it off?

Neither major political party is very unified right now – the Republicans because they hold the reins of power and Democrats because there is a large schism between the “progressive” wing of the party and the “establishment” wing of the party. We think that progressives will be in the ascendant come 2018 if only

because polling indicates more support for progressives than for establishment policies now. Establishment types won't lose; they will just have their ideas subsumed under the progressive mantra. John Kelly has been a miracle worker for Trump in setting him on a direction and reducing the noise level in the West Wing, but Trump is still Trump and is not likely to be much more popular than he is now. But Democrats must learn how to argue effectively with him. Letting Trump set the pace and the agenda has left a trail of broken politicians along the way. To paraphrase a word from Barak Obama's 2008 campaign, "Yes they can." Is our take a triumph of hope over experience? We think not. Demos are already taking politics by the horns at the local level. We will keep our political eyes and ears open as we progress to and through the 2018 campaigns.

So what?

Barring policy failures of the sort that brought on the 1920's speculation, market crash and the Great Depression, and barring geopolitical unrest of a magnitude to disrupt the world economy, we will welcome progressivism as a correction to an efficiency policy which, in our opinion, has gone too far. All of this said, we will be intently focused on the business cycle as our GPS to asset group selection (also called asset allocation). Business cycles to peak when economies become overheated, causing the Federal Reserve and other central banks to clamp on the monetary brakes in the form of tighter money and higher interest rates. Nothing like the end of this business cycle is on the horizon yet. Indeed, a move to progressivism might even elongate this business cycle even longer. A super long business cycle is a ticket to Valhalla for us as investors preparing for the day when we will be financially free and able to live on our own resources. We are excited about the coming period and look through the current abomination toward healing of the body politic.

We are grateful that you chose us to facilitate your financial journey. Thank you for investing with us.

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