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### • One Man's Opinions - Fall 2010

#### ONE MAN'S OPINIONS – FALL 2010

For some time now I have been puzzled by a "disconnect" between the economy and the general public's perception of the economy. There is no question that current growth in the economy is disappointing. Still, the economy is growing, but the general public does not appear to recognize this. I dug into the numbers to uncover why this is so.

The first and most obvious cause of the "disconnect" is the uncertainty created by Congress and the Obama administration. In a blog some weeks ago, I opined that the market would mark time until it became clearer which way the mid-term elections would go. A Republican takeover of the House of Representatives would create gridlock. (I believe gridlock would be good compared to the radical changes pushed through by the Obama administration and Congressional majority Democrats in the last two years.)

The second and equally obvious cause is the possibility of a pending very large tax increase January 1, as the Bush tax cuts end. The administration's proposal to extend the cuts for all but the top 2% of earners ignores the fact that 760,000 of these taxpayers are independent business owners, the very segment of our economy which traditionally leads the United States out of recession! As this is being written, Congress is recessing without addressing the matter one way or the other. Thus, we are gridlocked and this is, I believe, good. Unless there is some huge change between now and November 2, it would appear the House will be going Republican. A true landslide may also produce Republican control of the Senate but, even if this occurs, there will not be a large enough majority in the Senate to overcome a filibuster. Either way we will likely be left with a Democrat in the White House, a Republican House and a deadlocked Senate for at least the next two years.

The third cause, which frankly was a little surprising to me, was the fact that the recent recession (which lasted 18 months) and its aftermath resulted in a SIX PERCENT loss in jobs. (By contrast, the 16-month recession of 1974-75 had total job losses of 2.5%, and the one in 1980-81(also 16 months) had a three percent loss. The bulk of the latter two job losses were concentrated in hourly workers, many of them union members. For the most part these hourly workers were cushioned by unemployment benefits while they waited to be called back to their jobs, which most of them were. (To put things further in context, job losses during the Great Recession of the 1930s were 20%.)

The recession of 2008-09 lasted 18 months (ending in June 2009, as I predicted at the time) and impacted a much greater swath of workers in the economy. To begin with, the percentage of union workers in the private sector is now less than half what it was in 1981. Union members who work for governments were hardly impacted at all.

In short, this time around, we have had twice as many job losses (as a percentage of total workers) and four times as many salaried worker layoffs. These job losses are thus much more spread out over the middle class than was the case before, with many of the losses appearing to be permanent! These job losses have hit home for me, in that two of my six middle-aged children saw their businesses largely disappear as the economy dropped and the recovery lagged.

This poor economic performance has created a striking gap in confidence between financial advisors and the public. According to the *Rydex Advisor* survey, the advisor confidence index was up to 109.8 this month, up 16% from 93.8 last month, a huge leap! In sharp contrast, the Conference Board's consumer index for September dropped

precipitously to 48.5 this month against 53.2 in August! (A reading of 90 represents a normal economy.) I believe this almost unbelievable gap in confidence has arisen due to the difference between advisors, who experience the markets and the economy with a world-wide and longer term view, and the U.S. public, who are struggling to regain the financial ground lost in the recent recession with a shorter time horizon. This struggle is compounded by the historically high unemployment at the stage of economic recovery.

Consumers have traditionally lagged in their perceptions of the economy, whether realizing too late that the economy is heading for trouble or realizing too late that there are better times just around the corner. Economists and professional market participants currently see modest growth ahead, while consumers are focused on high unemployment and weak job growth, with continuing deterioration in some business sectors such as real estate.

To sum it up, it appears that consumers are waiting for more jobs to be created and unemployment to come down, while business is waiting for consumers to start spending more before expanding operations and adding to the workforce. What a "Catch 22" !

Another survey, this one of Chief Executive Officer,s shows that 67% expect higher growth rates in the next six months. However, just four months ago the same survey showed that 79% had such an expectation! It certainly was a disappointing summer economically here in the United States.

As we approach the end of the year it behooves us to pay attention to our IRA accounts. I suspect that almost all my readers have such accounts and that most, like me, don't pay a lot of attention to them. Here is a list of items to which we should look prior to 12/31/10.

1. Take your required minimum distribution. Those over 70 ½ need to do so from regular IRAs.
2. Check for any excess contributions. It is possible you contributed too much. The maximum is \$5,000 this year, \$6,000 if you are past 50, but no more than your earned income.
3. Is everything in place? Double check on all IRA funds that moved during the year. Make sure those destined to your IRA did indeed arrive there, not in a Roth or other account.
4. Can you do a Stretch IRA, which means your beneficiaries can use their own life expectancies instead of yours? Check with your custodian or 401(K) administrator.
5. Who is/are your beneficiaries? Review your beneficiary designations. Be sure there are both primary and contingent beneficiaries named as you desire.
6. One last chance at Roth conversions. If you wish to make such a conversion all funds must leave the IRA by Dec. 31 to be taxable in the current year and converted to a Roth.
7. Review your investment plan. Make sure your asset allocation remains appropriate to your current financial goals. Rebalance the account, if you have not already done so this year.
8. Roll old 401(k)s into an IRA. If you have one or more 401(k) accounts sitting with a former employer, you generally will have better investment choices and more control of your own IRA.
9. Recharacterize your Roth IRA. If, for any reason, you determine your switch to a Roth IRA this year was not beneficial, you are allowed to put these funds back into the original IRA.

I remain very reluctant to invest in bonds at today's low yields. I recommend refraining from any bond investments with more than two years' maturity. An acceptable option might be Preferred Stocks, where decent yields of six to eight percent are available. Call for guidance in this area as there are cautions in certain issues.

The stock market has rallied sharply in September, up 8.8% as this is written, up more than 10% from its bottom in August. Stocks as a whole are still reasonably priced on an historic basis. While I would not be surprised to see a correction of the September gains in the next few days or weeks, I continue to believe the market will be markedly higher by year end. High quality multi-national blue chip stocks are especially attractive. Call for individual recommendations.

Lastly, since she was referred to in my last newsletter as being on the way, I would like to proudly announce the birth of my 31<sup>st</sup> lineal descendant, Camri Dowdell, who arrived in this world Sept. 22, a couple of weeks early. She and her mother are doing fine. I got to welcome her personally to the family this week.

Have a great fall.

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***We are required by our regulators to offer a copy of our annual income statement to our active and prospective clients. If you would like to receive one, please call or email us.***