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• One Man's Opinions – Winter 2012-13

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Usually in these quarterly newsletters I give my readers my ideas, and recommendations as to where the stock and bond markets have been, are, and possibly will be. Today I am delaying doing this as few of my readers have a clue about the immediate future of the economy, our investment strategies, or our tax liabilities. I certainly don't!

As this is written (Dec. 30) , our leaders (??) in Washington D. C. apparently are at a standoff and both sides, but especially the president, seem to be willing to have taxes jump sharply and defense funding drop drastically next Tuesday. Other painful cuts and tax increases will become law as well. The Republican House majority rejected a very modest compromise by its leader, House Speaker Boehner. At this point he has no platform from which to negotiate.

The president, after declaring in 2010 that it would hurt the economy to raise taxes when it was recovering so feebly from the 2008, has now put himself in the corner to do exactly that. Most observers say that such a failure to act will trigger an economic recession. I agree. I am still hopeful they will compromise, if only to "kick the can down the road." But if not, then we will have the first ever deliberate U.S. government imposed recession. We will have to deal with it as necessary. As usual, I will have suggestions in my weekly blogs as things unfold.

In lieu of those usual comments, today I am reminiscing about how much these markets have changed in the fifty years and five months since I joined the investment business. It has been a heckuva ride!

Virtually everything has changed, commissions on stock trades have plummeted after they were freed in 1975. Mutual funds, and now their less expensive and more liquid offspring, exchange traded funds, have exploded in popularity, justifiably in my opinion. Some of the best investment management in the world is available to any investor with $1.000 or even less to invest.

Professional investment management for those with larger portfolios, $250,000 or more, now allows the investor to, in effect, have his or her own mutual fund. Stock options and market options enable the conservative investor to "layoff" risk to speculators if they wish to do so, often at nice profits. Hedge funds exist to do the same thing, but with leverage which sharply increases risk in most cases. I am not fond of the latter.

The machine I am using to compose this quarterly newsletter has more computing power than the entire room full of $1.2 million IBM machines in a secure temperature controlled room at Merrill Lynch in New York, which I toured fifty years ago as a trainee.

Trading volume is over a thousand times larger now than in those days. A few hundred men on the floor of the New York Stock Exchange executed trades for investors as well as themselves. They earned, by today's standard, ridiculously high commissions for doing so. Today you can trade thousands of shares for five or seven dollars by computer.

Back in our "boardroom" at Merrill Lynch we had an electronic "tape" moving from left to right at the front of the room. This system took the place of the old "ticker tapes" which had provided the same information on one inch wide tape delivered over phone lines for decades previously. Theater seats were available for customers who wished to "read the tape." I quickly learned from my seat at the front of the room most of them were not there to do business, but to have something to do inside out of the weather.

My desk was the first one in the front row at the top of the escalator as I delivered a daily stock market report on WTTV, our local independent station, at the end of each market day. I supported my young and growing family my last two years of college as a radio announcer and disc jockey. So Merrill took full advantage of my experience to put me on the air for my seven years there. I continued a local radio report for another seven years thereafter. While I am sure this activity did not hurt my career, I do not remember a single new account which came my way as a result of it.

Today we have instant communication of all news, not just the markets, via the internet. All public information on nearly all investments is also available there instantly, world wide. The markets discount the future, as they always have, but surprises and reactions to them are normally the way prices work these days.

Over the years I learned that it was not enough to be intelligent and hard working. This business is full of people smarter than I, and harder working too, nowadays. In my younger years I worked harder than anyone in my shop. As my family grew, I saw the error of my ways, and my six children got a lot more of my time. Doing so was the best decision I ever made.

After thirteen years as a stockbroker I decided to open my own broker/dealer and become a pioneer financial planner, central Indiana's first Certified Financial Planner(tm). In building a financial planning clientele, I specialized in estate planning and investments which had strong tax benefits. In fact, the tax benefits were, all too often, the only benefits to the investor. Over time I learned to sort out the one which had merit from the pure shelters, and over time the Congress and the IRS took away most of the extreme tax benefits and rightly so.

While still offering the few remaining deals with tax benefits, in the late eighties I shifted my business to individually managed investment accounts. As I had been throughout my career I was a pioneer here too. The large NYSE wire house firms followed in the 1990s and today much of their emphasis is on "AUM," assets under management. For a stockbroker this activity is not time intensive, allowing their registered representatives to build very large "books of business" if they choose to do so. Many of my fellow CFPs have followed this avenue as well as other independent investment advisors.

After 35 years as a volunteer in our self regulatory organization, formerly the National Association of Securities Dealers, now the Financial Industry Regulatory Authority, I stepped down the first of this year. I treasure this experience and believe I made a substantial contribution as the person with the longest consecutive service to our regulatory bodies. I still serve FINRA as an arbitrator to this day.

We in the investment world are far better regulated than we were in 1977. Having said that, I believe we still have a long way to go, especially with the very large investment banks in Wall Street. They continue to constantly cause trouble and incur fines, which apparently are shrugged off as “costs of doing business.” Just last week the Financial Industry Regulatory Authority (FINRA) sanctioned Citigroup Inc., Goldman Sachs Group Inc., J.P. Morgan Chase & Co., Morgan Stanley and Bank of America Corp.’s Merrill Lynch roughly $4.48 million for allegedly collecting fees from municipal and state bond funds to pay lobbyists. Without admitting any guilt they all agreed to the fines.

The heavier hand from our regulators that results from these continuing infractions falls unfairly, I believe, on the smaller members of FINRA, who make up the bulk of the membership, but contribute far fewer problems per employee, for the regulators.

I have been in semi-retirement for time now, since I began my lecture cruises eighteen years ago, some 65 of them so far. I have cherished this opportunity to share my own hard earned wisdom, discipline, knowledge, and experience with my audiences and the friends I have made among them. They have been well received and kept my modest business growing. More recently, in 2008, I began writing my weekly blogs for the same purpose. These have also been well received.

One Man’s Opinions, my quarterly comments on the markets and financial matters, have been distributed four times a year for thirty seven years now, originally by mail, now by email. Only 11 readers still get their copy by “snail mail.” If you are one of these 11 and now have an email address, please send it to me: tom@tommcallister.com. You will have faster access.

I remain thankful to my Maker for the fascinating, stimulating, educational, motivational, and financially rewarding career I have been blessed with these past fifty years. I am grateful to you, my clients, friends, audiences and readers for making it possible.

Tom McAllister, CFP

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