

# **THOMAS J. McALLISTER, CFP**

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### • **One Man's Opinions - Summer 2008**

**These four paragraphs were written during an industry visit to New York City in April.**

**“As I write this I have just returned from a 1.5 mile walk around “Ground Zero” at the foot of Manhattan. From this desk in my hotel room I am able to look to my right and see it 21 floors below. Although most of the foundations for the new building are in, it is still a deep pit with constant truck traffic in and out 24/7.”**

**“My feelings are sober and somber as I sit here. The destruction of those magnificent 110 story buildings is, in my opinion, only a small sample of what our countries’ enemies, the radical Islamic terrorists, wish to bring down on us. They frequently tell us they are going to do so. I believe the United States faces the greatest threat in our history.”**

**“One of the candidates for our Presidency does not see the threat as I do. He repeatedly calls for immediate withdrawal from Iraq, the current front of our “War on Terror,” where we now have Al Qaeda on the run. He wants to “confer” personally with these enemies, with no clear stated goals as to what he plans to achieve, other than “change. He has almost no experience other than as a Chicago machine politician who ascended to the U.S. Senate three years ago. He has spent half that term campaigning seven days a week for the presidency.”**

**“His opponent, John McCain, stands for and exemplifies what I believe is mandatory if we, as a country, are to avoid many more , and far worse, Islamic terrorist acts on our country. He has faced our enemies before, indeed spent over five years as a POW, commanded the largest air wing in the Navy, and has been in the Congress of the United States for thirty years. He advocated using greater force in Iraq long before the Surge. He has been sharply critical of the Bush administration in many areas, even when it caused him political harm. He is a proven leader!”**

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**As I review these thoughts some weeks later, the primaries are over and the Fall campaign is underway. While I believe Mr. Obama is an intelligent and decent man, well educated and certainly well spoken, I believe he is the exact opposite of what we need to lead us for the next four or eight years. He is not only inexperienced (and apparently naïve), he is the most liberal of our 100 U.S. Senators. He has not laid out clear plans as to how he will accomplish “change” and “hope.” In fact, he has shared very few plans on any subjects, even universal health care. The last similar candidate, another highly intelligent and decent man, Jimmy Carter, was a disaster, arguably the most ineffective President of the 20th century. But Carter had far more leadership experience than Obama, as both a Naval Academy graduate and Navy officer, and as a state governor.**

**My father was Democrat City Chairman and City Clerk Treasurer back home in Vincennes, IN. He was a conservative southern Indiana Democrat. I was long gone by then and a Republican precinct committeeman myself. We did not always agree on politics, but had common values. I learned them from him and Mom. I suspect he would share my doubts about Mr. Obama, and would have supported a more more conservative traditional Democrat.**

**2008 does look like a Democratic year across the board, except for U.S. President. McCain and Obama are in a dead heat in the polls. In spite of radicals on both sides, American voters have made only a few mistakes picking their Presidents down through the years. It appears the radical liberal left is far out of touch with the average voter. Either way, let us all pray for our country.**

**It is hard to believe the distortions the media and politicians are putting out these days. (Can we ever?) Contrary to their statements, the U.S. economy is surprisingly strong! The unemployment rate has grown only moderately, to levels that just a few years ago were considered full employment. Job growth continues strong. It now appears we are going to “skirt” a recession, and the shock of sharply higher energy and food prices is being assimilated far more easily than anyone dreamed possible. It is true that the economic growth rate has slowed to almost nothing. But it has not yet gone negative. The outlook for the rest of 2008 calls for slow growth as the economic stimuli of lower interest rates and taxpayer rebates flows into the economy. I am frankly surprised!**

**The biggest fear I have is of “stagflation” similar to the late 1970s. I do not see double digit inflation numbers, but we are already around 4.5% in real numbers due to the energy and food price increases. My fear is this could spiral to 6-7.5%. This would cripple any recovery and perhaps force the Fed to “slam on the brakes” and trigger a major recession, as was the case in 1981. The Fed’s announcement this week that they do not see any further interest rate cuts indicates they also are concerned. The Fed Open Market Committee has 18 people far smarter than I, and they have far more facts. I trust they can steer us clear of the danger.**

**Speaking of the Fed, and the Bush Administration in general, are you as puzzled as I am at their apparent failure to anticipate that, if we consciously allowed the dollar to depreciate against the Euro and most other currencies, OPEC and the other oil producers would raise their prices (in USD) to reflect this situation? Raise them they did, and they found there is apparently no limit to how high oil prices can go right now. As I said here in my last newsletter, the speculators are in charge and until they drive oil prices to the absolute limit people are willing to pay, they will continue to climb. My opinion is we are near the end of the spiral, although it could continue for some months. When the price breaks, I see a retreat of a third to half of the run up, whatever that might be in dollars.**

**I don’t like \$4 gasoline either. I have cut back 10-15% on my driving, which is not a hardship for me. But my youngest daughter lives on the far south side of Indianapolis and works (at a very good job) on the far north side. Her daily commute is 70 miles (in a 4 cylinder Accord) and she does not have the option of cutting back much. There are millions like her. It is very tough for them.**

**Home prices have dropped even more than my pessimistic predictions of two and three years ago. In many hot areas, like California and SW Florida, where prices shot up 100-200% or more between 2001 and 2005, they have dropped back to below where they started. Home builders and realtors have left the business in droves. Foreclosures abound. Speculators are bloody and beaten and are taking their losses and selling out at any price. Renting homes in the formerly hot areas is not a good option due to the heavy inventory of empty homes driving rents to very low levels, not even enough to cover mortgage payments and taxes. Most unbiased observers believe we have yet to see the bottom in home prices.**

**The stock market appears to have stabilized in recent weeks. My money managers remain very optimistic for the rest of the year and into 2009. The indicators we follow show stock prices in general are very reasonably priced vs. fixed income and real estate. Exceptions are municipal bonds, where high quality tax free state and local government obligations are currently available at yields HIGHER than taxable U.S. government bonds.**

**Another exception is the recently issued financial preferred stocks, which are more like fixed income than equity, even though technically they are equity. They are available to yield 7.5-8%. And the 15% maximum federal income tax applies to these yields, at least until the end of 2010. These are stable companies for the most part and this is good value.**

**Stocks have been largely resilient in spite of oil and food price increases and the negativity emanating from politicians and the press. This scenario is called “climbing a wall of worry” when gloomy economic and market predictions are overwhelmed by a host of positive forces that are hidden from the spotlight. Some of these are the indicators referred to above. These are almost uniformly bullish (optimistic) as this is written. Valuations are attractive, short interest is high, and sentiment is cyclically depressed, all consistent with a market bottom, not a peak.**

**So we believe this is a time to commit cash, some of it to municipals and/or financial preferred stocks, and some to obviously undervalued stocks. I know it is hard to ignore the gloom and doom pervasive in the electronic media and in the newspapers. But time and again throughout my 46 years in this business, these have proven to be the times when bold action provides extraordinary returns. I hope you will take advantage of this opportunity, either with us or on your own. Call for ideas specific to your own situation.**

**Tom McAllister, CFP**

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**SPECIAL NOTE:**

**Annually we are required to offer to our clients a copy of our most recent income statement as filed with the Indiana Securities Division. If you wish to have a copy, call the number above, or email us at tom@tommcaster.com.**

**We also wish to advise all our clients that our client financial information is strictly private and will not be revealed to any outside parties unless authorized by you in writing; or by subpoena from a court of law.**

**A word to the wise:**

**Spiritual teachers tell us that all of our fears ultimately come down to our fear of death. Because of our materialistic worldview, we are intent on preserving our bodies and everything that goes with them. We associate preserving our wealth with preserving our lives. We fear that oneness will interfere with the survival of our separate identity. Wisdom teachers say that this illusion of separateness is precisely the problem!**

**The Heart Of The Mind**

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