This Publication Brought To You Courtesy Of:

STEVEN F. CARTER
CERTIFIED FINANCIAL PLANNER™, Practitioner

CARTER FINANCIAL

4225 Executive Square
Suite 1030
La Jolla, CA 92037-1486
Phone: (858) 678-0579
Fax: (858) 546-0792
E-mail: steve.carter@lpl.com
www.stevecarterfinancial.com

CLIENT BULLETIN

October 2012

➢ *Healthcare Again*

Sorry to keep coming back to the issue of healthcare but it is a large and growing component of our national economy and personal futures. In the early sixties, healthcare represented 6% of our nation's Gross Domestic Product (GDP). Today it is 18% of our economy and growing rapidly and disproportionately. Why are healthcare expenses growing more quickly than other goods and services? One of the primary answers to that question lies in the distancing of medical care costs from the end-users (all of us). The average American pays only 12% of the cost of their healthcare expenses. Would you buy more groceries if you knew you only had to pay 12% of the bill at the checkout register?

➢ *Unpopular Solution*

When your doctor recommends a lab test for you, have you ever asked what it will cost? The answer is typically no because you don't have to pay for most or even any of it. If you or I had to pay for 50% of the cost of a $2,500 CAT scan you can bet we'd be shopping around for the best trade-off between service and price. One of the major solutions to keeping healthcare costs under control is for all Americans to pay for a greater percentage of those costs, thereby exposing them to greater competition and keeping a lid on prices. Unfortunately a politician couldn't get elected dogcatcher proposing that individuals shoulder more of the burden for their own healthcare costs so you won't hear it discussed.

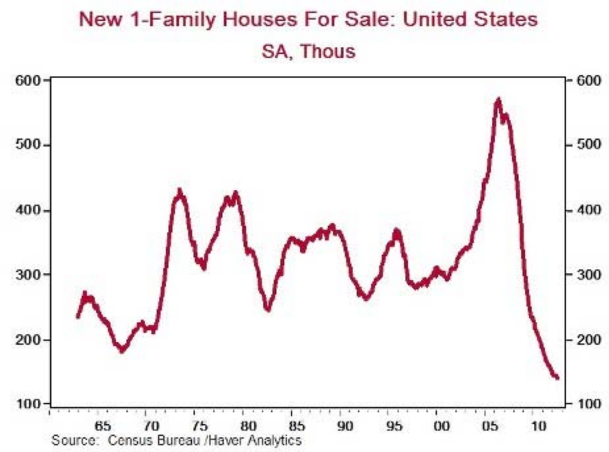
➢ *QE Forever*

Well, they did it. The Federal Reserve (Fed) rewrote the central banking playbook with a third round of quantitative easing called QE3. QE3 might as well have been dubbed QE Forever - unlike its predecessors, QE3 is open ended in terms of the amount of bond buying the Fed will do and the length of time it will do it. At least this saves them the embarrassment of having to come out with QE4, QE5… With the announcement, the Fed clearly subordinated its mandate of keeping inflation under control to its dual goal of keeping unemployment as low as possible.

➢ *QE Forever #2*

The big concern is that it doesn't even appear that the additional liquidity provided by QE3 will have the desired effect of improving the economy and reducing unemployment. Previous rounds of quantitative easing continue to sit on the books of individuals, corporations and especially banks. In monetary parlance, the **transmission mechanism** between the Fed's monetary policy and the economy is not functioning properly. Worse yet, the artificially low interest rates created by all of this liquidity allows the federal government to feel like they can continue overspending by keeping the cost of servicing the existing $16 trillion debt at a temporarily low level.

➢ *Housing Help*



One of the express intents of QE3 is to help spur a recovery in the housing market by driving interest rates down further still and making mortgages more affordable. Why hasn't this worked with QE1 and QE2 and why will it most likely not work with QE3? One answer might be that there are two sides to every transaction, so while lower interest rates make mortgages more attractive to borrowers; they simultaneously make them less attractive to lenders (banks). If you were in the business of lending money, would you want to loan it out at 3% for the next 30 years? In any case, housing most likely doesn't need the help. The chart above shows the number of single-family homes for sale in the U.S over the past 50+ years. At some point the law of supply and demand will help homes prices recover on their own without any more help from monetary policy.

➢ *Cold Warning From the North*

We need look no further than Canada for a reality check on our government spending. In the late 80s/early 90s, Canada found itself facing very similar figures to what the U.S is currently looking at: a government debt-to-GDP ratio of 80% & federal government spending that was 23% of GDP. After enacting deep cuts in federal spending they now rank as one of the financially healthiest nations. What made them take on the painful task of getting into financial balance? Did their political parties work together to come up with a solution they both could live with? Hardly. Rather than ideology, it was arithmetic that caused them to downsize government. "Everyone recognized that the magnitude of the debt, & the cost of servicing it, was unsustainable", says Paul Martin, the Canadian finance minister at the time. Canada's plea to the U.S.: "if you start tackling it before you hit the crisis stage, it's going to be a heck of a lot easier. The longer you wait, the worse it gets."

➢ *Quote of the Month*

Parliament member to Winston Churchill: "Mr. Churchill, must you fall asleep while I am speaking?" Winston Churchill: "No, it's purely voluntary."