This Publication Brought To You Courtesy Of:

STEVEN F. CARTER
CERTIFIED FINANCIAL PLANNER™ Practitioner

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

CARTER FINANCIAL

CLIENT BULLETIN

May 2016

➢ *Just Wondering*

Four times a year Wall Street goes on parade as companies announce their quarterly earnings in which they report their financial performance and give guidance for the future. The stock price of a company often suffers if the quarterly earnings figure they report misses, even by a few cents, what the "analysts' expectations" were for those earnings. Why doesn't the media ever report that "once again, Wall Street **analysts** missed actual results?"

➢ *Something's Wrong*

The cost to get a college degree has clearly risen more quickly than a student's ability to pay for it. As a result, mom and dad are having to carry a much heavier share of the load. One measure of this is the percentage of federal student loans that are "Parent PLUS" loans, a product the government offers to **parents** to help pay for college for their child. In 1990 these loans represented just 4.1% of total federal student loans. In the 2012 academic year, the latest that data is available for, these parent loans made up 19.9% of federal student loans. The average balance of these loans has risen as well, from $15,323 in 1990 to $40,154 in 2012. (Source: U.S. Department of Education).

➢ *More Disturbing Education Statistics*

At the start of 2016, the Department of Education reported that nearly 1 in 6 borrowers were in default on $56 billion of student debt, indicating they had gone at least a year without making a payment. Another three million borrowers owing close to $110 billion were in "forbearance" or "deferment," meaning they received permission to halt payments due to a financial emergency such as unemployment.

➢ *China Rising*

All of the handwringing earlier this year over China's economic prospects does not seem to square with facts. A report from the World Travel & Tourism Council (WTTC) showed that Chinese tourists spent $215 billion abroad in 2015, 53% more than in 2014. Today, one in every ten international travelers comes from China. Chinese citizens tend to begin travelling abroad once their household income reaches $35,000 according to the WTTC. In 2013 approximately 21 million households in China hit that mark. That number is expected to rise to 61 million by 2023. (Source: World Travel & Tourism Council)

- ***Misleading Statistics***

A common refrain is that "America Doesn't Make Anything Anymore" with an increasing trade deficit being cited as evidence. There are, however, many different ways for businesses to add value in the manufacturing process by designing a product, upgrading a current product or improving marketing and sales for that product. Take an iPhone for example – it is designed and developed in the U.S., but because it is assembled in and shipped from China (adding less than 5% of the production cost), its sale is counted as an export **from** China and an import **to** the U.S. Because of this accounting, the official manufacturing and trade data drastically understate the U.S. role in global manufacturing and overstate the U.S. trade deficit. (Source: American Enterprise Institute)

- ***Greater Efficiency***

Even though the gross dollar amount of goods produced by the United States has increased significantly over the years, it doesn't take as many people to produce it. On **7/31/41**, there were **12.38 million** manufacturing jobs in the United States. As of the end of February 2016, **nearly 75 years later**, there were **12.33 million** manufacturing jobs. (Source: Department of Labor)

- ***Government Refi***

While certain aspects of the federal government's finances don't translate directly to personal finances, some do. Consider the $19 trillion federal debt. The average maturity of outstanding marketable Treasury debt is 5 years and 9 months. Just like consumers, the managers of the federal debt could be locking in what appear to be low interest rates by issuing longer-term bonds. Instead, just 9% of the government debt issued so far in 2016 has a maturity of 10 years or longer. So why isn't the Treasury locking in low rates for as long as possible like you and I are doing? Because shorter-term government bonds have lower interest rates than longer-term bonds which means that budget deficits **now** are smaller, possibly at the expense of much larger deficits later as interest rates rise. (Source: Treasury Department)

- ***Puerto Rico Update***

In February we looked at the plight of the Commonwealth of Puerto Rico. Their unique economic and political status as a U.S. Territory combined with decades of overpromising by their government had led them to the brink of financial failure. Recent events have only accelerated the inevitable. One of the last ditch hopes for Puerto Rico was that the United States government would come to the rescue with a debt-restructuring plan. At this point, however, it looks like Congress will not be able to reach a compromise by May 1.

- ***End of the Road***

May 1 is an important date because Puerto Rico must make a $423 million debt service payment by then followed by a $1.9 billion payment by July 1. Having run out of ways to postpone its looming default, the Puerto Rico House and Senate threw themselves on their sword by passing the "Puerto Rico Emergency Moratorium and Financial Rehabilitation Act." The act declares a moratorium on government debt service payments through January of 2017 and "provides for a stay on creditor remedies." In plain English the legislation means: "we can't pay our debts and you can't sue us."