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## CLIENT BULLETIN

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### ➤ *The Ordinarity of Declines*

I write these Client Bulletins approximately two weeks before their distribution date to allow plenty of lead time for the compliance process. I wrote the next paragraph about performing "lifeboat drills" a couple of weeks ago but it looks like the market beat me to it so I thought I would send out September's edition a little early. The last few days really have not been much to write home about - the S & P 500 has *averaged* a 14.2% intra-year decline over the past 35 years. Moreover, declines of 10% historically occur once every 8 months and declines of 20% or more occur once every 20 months. Surprise, however, is the mother of panic, so I thought I would try to provide some perspective. It is times like these when the hare falls asleep by the side of the road and the tortoise passes him by. (Source: Standard & Poor's)

### ➤ *Man the Lifeboats*

As of today (August 11<sup>th</sup>) the S & P 500 has gone 1,407 days (i.e. from 10/03/11) without a 10% or greater drop in the index, the 3<sup>rd</sup> longest stretch without a double-digit pullback in the last 50 years. It is during times of relative market stability like these that it is important to remember what investment volatility feels like. Over the coming months I will be using historical volatility measures to model what a potential downturn could mean in terms of various asset class performance and the ability of an overall portfolio to weather rougher seas if and when they occur. As always, time and diversification are the most effective antidotes to volatility. (Source: S & P Dow Jones Indices).

### ➤ *Major Shift*

In April of this year, the United States generated more of its electricity from natural gas than from coal. It was the first time in U.S. history that gas-fired electricity generation topped coal-fired generation. This is a phenomenon literally unimaginable even a few years ago and is the primary reason that carbon emissions in this country have declined. This shift was primarily due to new technologies of hydraulic fracturing which made the recovery of vast stores natural gas possible thereby causing the price of natural gas to plummet.

### ➤ *Self-Imposed Austerity*

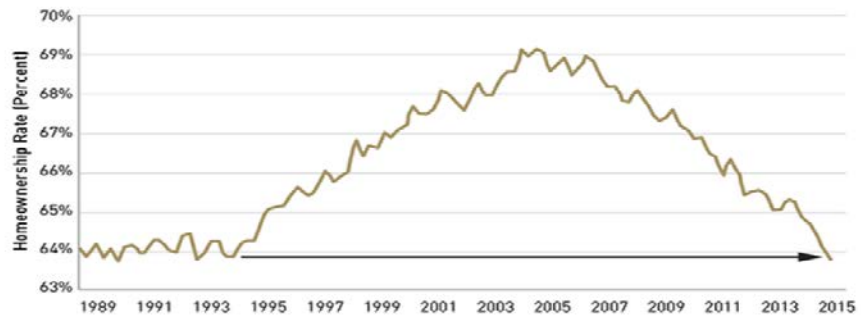
Germany is Europe's lender for a reason – 80% of their financial transactions are conducted in cash and only 32% of Germans own a credit card (Source: Deutsche Bundesbank).

*Steven F. Carter, CFP® is a Registered Principal with and securities offered through LPL Financial, Member FINRA/SIPC.*

## ➤ *Round Trip*

In 1993 the national home ownership rate in the United States had been relatively steady at 63.7%. Following a well-intentioned effort to make sure that “everyone in America should be able to own a home”, the national home ownership rate peaked at 69.2% in the 4<sup>th</sup> quarter of 2004. As of the 1<sup>st</sup> quarter of 2015, the national home ownership rate was back to 63.7%. Although there were other factors involved in these percentages, it is another example of the moral hazard that sometimes comes with good intentions. (Source: Census Bureau).

**Chart 1. The National Homeownership Rate Has Fallen Back to 1993 Levels**  
Homeownership rate (%)



Source: Joint Center for Housing Studies of Harvard University (JCHS) tabulations of U.S. Census Bureau, Housing Vacancy Surveys.

## ➤ *Creative Destruction*

A by-product of technological advances is the process whereby some companies are displaced by new ones as market forces and innovation cause shifts in the economic landscape. This is on full display in the energy industry due primarily to the shift referenced above. A prime example is Alpha Natural Resources, one of the largest U.S. coal producers. In 2011 Alpha paid \$7.1 billion for rival coal mining company Massey Energy Inc., a deal which extended Alpha’s lead as the largest miner of the type of coal used in steel building. Earlier this month, just 4 years after being a market leader, Alpha Natural Resources filed for bankruptcy.

## ➤ *Worth a Thousand Words*

Much ink could be spilled comparing a market-based economy to a centrally planned, government run economy, but it doesn’t need to be. The picture to the right is an aerial photo of North and South Korea at night. Bloomberg calculates that South Korea is the world’s most innovative country based on seven weighted factors.



## ➤ *College Bound*

Even before packing the laptop and bed sheets, parents with kids heading off to college should make sure they have taken care of a few legal housekeeping issues. Among the documents that families should consider securing are the student’s power of attorney and a health care proxy. A general power of attorney gives parents or guardians the ability to sign documents on their child’s behalf and have access to their financial accounts. This may come in handy in certain situations, such as paying a bill, securing an apartment lease for the summer or straightening out a lost credit card. A health care proxy allows parents to make health care decisions for their child if they are incapable of doing it themselves. Without this signed form, parents won’t be able to make medical decisions if a child is unconscious and they won’t be able to discuss the care of an adult child with their doctors.

*The Standard & Poor’s 500 Index is a capitalization weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major business industries. All indices are unmanaged and may not be invested into directly.*