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CLIENT BULLETIN

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➤ ***Labor on the Mend***

On balance, the U.S. labor market has continued a slow march back to health. The unemployment rate has dropped from 10% to 7% (3.4% for college graduates) and if the current pace of job growth continues, total employment will surpass its December 2007 peak of 138 million workers sometime in 2014. Recent reports have noted that employers are having difficulty finding workers in certain areas of the economy including software developers, engineers, legal, compliance and biotech. This indicates that our labor issues are beginning to switch from a lack of jobs to a skills mis-match. At some point, unemployed workers will begin asking themselves why they aren't one of the 200,000 people being hired each month. (Data source: JPMorgan)

➤ ***Budget Bill***

Congress recently passed a two-year budget deal and President Obama signed it into law yesterday. The agreement is merely a political solution - and a weak one at that - rather than an actual fiscal solution. The main reason it was passed by the House and Senate is that neither political party had the stomach for a substantive discussion about the real issues the government faces: the need for fundamental tax, entitlement and immigration reform.

➤ ***No Taper Tantrum***

At Chairman Ben Bernanke's next to last meeting, the Federal Reserve announced a modest tapering of Quantitative Easing (QE), reducing their monthly purchases of bonds from \$85 billion to \$75 billion. The Fed also said that if the economy continues to improve, they would continue the tapering process over the course of their eight meetings in 2014. Unlike earlier this year when the mere *hint* of the Fed beginning the tapering process caused turmoil, the various financial markets generally took the news well. This tapering process is long overdue – there is significant data showing that quantitative easing is not affecting economic growth anyway, merely adding to enormous excess reserves in the banking system.

➤ *Debt Ceiling – The Calm Before Another Storm*

One of the most important items the budget bill *didn't* address is raising the federal debt limit. Under the current limit, the nation's ability to borrow expires on February 7, 2014. The government can sustain itself without borrowing for a month or two after that using tax receipts and other funds, but by March or April next year Congress will again need to raise the debt limit after the inevitable political wrangling that goes along with that process.

➤ *Articles You Won't See*

With an emphasis in the media on topics meant merely to grab headlines, it is easy to miss mundane yet economically significant developments around the globe. Below are just two articles you probably won't find on the front page of the financial section even though they represent secular factors at work creating continued demand for goods worldwide.

Jet Planes – New Skin in the Game

Jet planes aren't what they used to be. Technological advances have transformed aircraft making them lighter and more fuel efficient. Planes are now largely made of composites, a lightweight concoction of carbon fiber and epoxy. The composite is lighter than metal but just as strong. This helps make planes 20% more fuel efficient than they used to be. Passenger traffic is projected to grow over 5% per year for the next 20 years as

economies develop and populations gain wealth. Companies throughout this global industry are positioning themselves to keep up with this demand including aircraft construction companies (Boeing, Airbus), engine manufacturers (Rolls-Royce, MTU Aero Engines in Germany) and suppliers (United Technologies, Precision Castparts).



A Sea Change in Shipping

A century ago, the Panama Canal created the “path between the seas.” The canal can handle a 964-foot ship carrying 5,000 cargo containers. A technological revolution is changing the structure of the container shipping sector, however, leading to new, ultra-large vessels. The world's largest container ship left South Korea on its maiden voyage on July 16th, 2013. It is 1,312 feet long and carries 18,000 containers. The Panama Canal Authority projects a 35% increase in cargo volume through 2025 and an additional \$10 billion of revenue. You can guess what the canal is doing – expanding. It is currently undergoing a \$5 billion expansion that will make it possible to ship more goods directly from Atlantic ports to Asia. Port officials along the Gulf and East coasts are scrambling to build bigger, deeper ports to accommodate these larger ships.

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