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CLIENT BULLETIN

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➤ *College is Still Worth it*

Despite the challenges of funding a college education that were detailed in last month's bulletin, getting a higher degree remains a significant step on the path to upward mobility. According to a recent study by the Brookings Institute, only **16%** of college graduates who were born into families in the bottom 20% of wage earning households **remain** in the bottom 20% of wage earners during their adult lives.

➤ *Taxes*

90% of American Taxpayers pay more in payroll taxes (FICA, etc.) that go to support Social Security, Medicare and unemployment benefits than they pay in federal income tax. (Source: Peter G. Peterson Foundation).

➤ *More on Taxes*

I'm not sure of their methodology, but the Internal Revenue Service estimates that the average US taxpayer pays only 81.7% of their total federal income tax bill. This adds up to a \$458 billion annual "tax gap" that is primarily due to unreported income.

➤ *Spending Patterns*

Internet and catalog sales totaled \$45.2 billion in April of 2016. This figure represented 10% of total retail sales nationwide (\$453.4 billion). What's more important, however, is the *rate* of growth. Total sales increased by **3%** over the previous year while internet sales grew by **10.2%**.

➤ *Upgrade Cycle*

The days of getting a new cell phone every 12-18 months appear to be coming to an end. In the past, the structure of cell phone contracts with wireless carriers encouraged replacement because consumers did not have to pay much, if anything, to get a new phone. Of course we all will upgrade our phones if we don't have to pay anything. That's called a subsidy and it leads to increased consumption whether you are talking about cell phones, medical care or any other product or service.

➤ *Hold the Phone*

What's driving this change is the success of AT&T and Verizon Communications in shifting customers into plans that require them to pay full price for new devices separately from monthly service fees. When consumers have to pay the actual cost for a product they evaluate the narrowing technological advances of a new device with a more critical eye. All of this has Apple and other cell phone makers scrambling to find new ways to encourage consumers to upgrade their devices.

➤ *Compound Interest*

Albert Einstein declared that compound interest is 'the most powerful force in the universe.' An amusing but compelling illustration of the concept: King Francis commissioned the painting of the Mona Lisa in 1516 at a cost of \$20,000. If the King had instead invested the \$20,000 and earned a 6% annual rate of return it would be worth over \$1 quadrillion today. I don't know how much the Mona Lisa is worth, but I'm pretty sure it isn't \$1 quadrillion. Even relatively small amounts of money, when allowed to compound at modest rates of return over long periods of time, add up to staggering sums.

➤ *Shifting Sands*

Until recently, Saudi Arabia and the state of California had the same credit rating (Aa3) from credit-rating agency Moody's. On 5/16/16, however, the rating agency downgraded Saudi Arabia one notch due primarily to increased oil/gas production from the United States.

➤ *Brexit?*

On June 23 the United Kingdom (UK) will hold a dramatic referendum to determine whether it will withdraw from the European Union (EU). A British departure from the EU has been given the nickname "Brexit." The driving force behind the campaign to withdraw is the belief that the costs of EU membership outweigh the benefits in the following respects:

- **Regulation:** EU membership comes with some burdensome regulations for UK businesses including renewable energy directives and weekly working hour limits for employees.
- **Immigration:** the arrival in recent years of hundreds of thousands of legal immigrants from Eastern Europe has led to lost jobs for Brits and a larger portion of government benefits going to migrants.
- **Wealth Transfer:** those who are in favor of an exit are also fearful of the costs of future bailouts for poorer countries in the EU.
- **Trade:** 52% of UK trade, worth £400 billion per year, is with other EU countries. Many believe an autonomous UK could secure beneficial trade deals directly with other important countries such as China, India and the United States.

While the consequences of the vote on June 23rd to leave the EU will be significant for the UK economy, a greater consideration is the threat a Brexit would pose to the entire European integration movement. Stay tuned – polls are evenly split at this point.

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