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CLIENT BULLETIN

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➤ *Portfolio Blowup?*

Even the most experienced investors are at least a little worried about North Korea's Kim Jong Un's nuclear weapons. How worried should you be? Click [here](#) for a link to an interesting article written by someone a whole lot more knowledgeable than most of us about the topic. If you aren't ambitious enough to take on the 5+ page article, here's the Reader's Digest version:

- Kim is an evil dictator, but he is not suicidal. He understands that launching an attack against the U.S. or one of its allies would result in the destruction of him and his regime.
- Even though he most likely won't use them, Kim is building nuclear weapons for two reasons: 1) possessing them means the U.S. will not attempt to overthrow him; 2) their presence forces Washington to take him seriously at the negotiating table.
- Many experts believe that Kim will be prepared to negotiate with the U.S. once he has successfully tested a long-range missile capable of carrying a nuclear warhead.
- One potential model for a solution to the North Korea problem is the reciprocal "roadmap" process that has enabled the U.S. and Vietnam to establish the trust necessary to move beyond their troubled history.

➤ *Economic Impact of the New Tax Law*

The recently enacted **2017 Tax Cuts and Jobs Act** should stimulate U.S. economic growth through higher consumer and business spending. American companies are the biggest winners in the bill and they should be able to directly convert lower taxes into higher profits. Additionally, the newly minted tax policy allows U.S. companies to bring back some of the roughly \$2 trillion of business profits trapped offshore by current tax law. This should leave U.S. companies with a high-quality problem – what to do with a mountain of cash. Companies have numerous options, some of which are:

- Add jobs and build factories: Politicians have touted these as the primary uses for repatriated cash but less may go here than believed if history is a guide
- Mergers or acquisitions: Not much may go here – low interest rates and strong profits have provided plenty of fuel for this activity already
- Repurchase shares of stock or increase shareholder dividends: the lion's share of cash is expected to go back to shareholders through one of these avenues.
- Pay down debt: not very exciting but this will be the best move for some companies

➤ *Smart Cars*

It seems that every day we see articles predicting the death of the internal combustion engine and a sharp decline in the worldwide demand for cars in the years ahead. So why bother to invest in companies that make cars or car components at all? Two reasons: 1) fewer cars in the developed world, where 75% of households already own them, will not offset the growth of the number of cars in emerging markets, where automobile penetration rates are much lower; 2) the evolution of the automobile is having a significant effect on the components within cars. Would you believe that the components on a Boeing 787 contain 14 million lines of computer code while the components in the average high-end car have 100 million lines. Investing in cars isn't dead, just different. (Sources: Pew Research; Informationisbeautiful.net).

➤ *Make China Great Again*

The Chinese Communist Party's (CCP) 19th congress - a political summit held every five years – concluded in October. Although the CCP isn't given too much fanfare, the changes this congress will bring about deserve attention, as they reflect a new reality in the world's second largest economy:

- Xi Jinping was granted power and stature unmatched in recent Chinese history, including having his thoughts written into the party constitution on par with those of Mao Zedong.
- Xi's Chinese dream combines aspirations of global leadership and national pride with improvement in the quality of life for citizens, but may come at the expense of economic growth.
- President Xi's one tangible economic change is the switch from a mantra of "growth above anything else" to "quality of growth", i.e. growth that is more sustainable.
- While the CCP pays lip service to "market oriented" reforms, what it wants to do is improve the productivity of **state owned** companies, thereby making the state stronger.
- Investment opportunities in China may lie in service sectors such as health care that support the regime's goal of a better quality of life or China's electric car industry with their goal of being all-electric by 2025.

➤ *Standard of Living*

While China's economy is the second largest in the world behind the United States, there really is no comparison of the standard of living in the two countries. China's **GDP per person** is \$9,377, while the USA's **GDP per person** is \$61,687 (Source: International Monetary Fund).

➤ *Interesting Observations*

- ✓ Stocks globally rose every month in 2017. This is the first year *ever* without a single monthly decline. (Source: MSCI AC World Index).
- ✓ The Bureau of Labor Statistics projects that **91 percent** of the new jobs created in the United States in the next decade will be in "service-providing" jobs as opposed to "goods-producing jobs".
- ✓ The October 2017 jobless rate reported in the states of Alabama (3.6%), Hawaii (2.2%) and Texas (3.9 %) were the **lowest ever recorded** (Source: Department of Labor).
- ✓ 1 out of every 4 Americans who reach age 65 will **live at least another 25 years** (source: Social Security).

The information contained in this newsletter is of a general nature and is not intended to be a substitute for specific individualized financial or tax advice. It should not be acted upon in your specific situation without further details and/or professional assistance. Investing involves risk including the potential loss of principal.