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From Anna's Desk

Chinese Trade Tensions Escalate, but Investors Focus on Signs of Compromise

- The Deficit
- Passing the Benefits Earnings Test
- New Employee



*From CFS staff to your family... wishing you all the
Hope, Wonder & Love that the Season can bring!*

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From Anna's Desk: Chinese Trade Tensions Escalate, but Investors Focus on Signs of Compromise

The ebb and flow of tariff threats and other trade concerns continued to play a large role in driving sentiment in the past few months. Stock prices declined after investors braced for the implementation of tariffs on another \$200 billion in Chinese goods and President Donald Trump stated that tariffs on a

further \$267 billion might be coming—covering essentially all Chinese exports to the U.S. The latter threat did not materialize, but the U.S. did begin implementing a 10% tariff on the original \$200 billion in targeted goods on September 24, with the tariff rate set to increase to 25% at the end of the year.

Markets largely took the new tariffs in stride, with investors apparently calmed by the low 10% level of the initial tariff, which some interpreted as a sign of a willingness to negotiate on the part of the administration. China seemed to offer its own olive branches. In particular, Chinese officials indicated that they would not allow the country's currency, the yuan, to devalue further. The yuan has declined nearly 9% versus the U.S. dollar since April, making China's goods more competitive on world markets and largely offsetting the impact of a 10% tariff. Chinese officials also announced a series of measures to open China's markets to foreign goods, such as reducing the time it takes goods to clear customs.

I had the pleasure of meeting with the esteemed Xin Zhang while in New York on October 11th. The discussion entailed the currently brewing U.S. / China trade tensions. Here are some interesting things I learned:

- China used more cement in the three years 2011-2013 than the US used in the entire last century. That spike has since stabilized, and the imbalance is not currently that extensive.
- Ms. Zhang believes that the Chinese public is more consumed with the US / China trade skirmishes than Americans.
- US exports are only 4% of China's GDP, but psychological effects are much greater.
- Retailers in China are being hurt badly by e-commerce. It has disrupted their brick-and-mortar businesses as ours have been.
- The demand for more amenities by tenants is increasing in China. Builders are constantly working on meeting this demand. It does not help that lease terms are much shorter in China. For example, most leases range between two to three years. Tenant turnover is more rapid, and competition for tenants is strong.
- Policy changes at a much faster rate too, hence making it harder to do business.
- Real Estate companies are trading at average of 50% of NAV.
- Leverage is a serious issue in China. The government does cause debts to be excused under some circumstances. China does not have a comprehensive and predictable bankruptcy process like we have here in the US.

Although US/China talks were not fully engaged as of our conversation, we both hoped that the two countries will arrive at

a mutually agreeable resolution. Before we said goodbyes, with a little giggle she humbly said: "Come visit my buildings, you'll love them! It's not as bad as the media would have you believe. People are nice in China. We'd love to have you come see." I felt a warm connection with her. Like me, she came from humble beginnings and is thriving under great responsibilities. I found Mrs. Zhang to be a pleasant, direct and extremely intelligent lady, who cares for her family, country and the world.

Information Compiled by Anna Luke: NY Times; T Rowe Price Monthly Market Review



Anna with Xin (Shynn) Zhang

Xin (Shynn) Zhang

Founder and Chief Executive Officer of SOHO China

Xin (Shynn) Zhang co-founded SOHO China in 1995. As CEO, she has led the company to become one of the largest developers of prime office real estate in China. SOHO China has developed over 5 million square meters (54 million square feet) in projects in Beijing and Shanghai. Her collaborations with world

– renowned architects have resulted in iconic landmark buildings that transformed Chinese skylines. In 2014 SOHO China launched "SOHO 3Q" pioneering the concept of co-working space, and a magnet for Chinese start-ups and tech companies. Born in Beijing in 1965, Xin (Shynn) moved to Hong Kong at the age of 14, where she worked as a factory girl for five years. Determined to pursue higher education, she made her way to England where she earned a Bachelor's degree in Economics from University of Sussex and a Master's degree in Development Economics from Cambridge University.

After working investment banking at Goldman Sachs and Travelers Group, she returned to Beijing to co-found SOHO China with her husband Pan Shiyi. In 2007, SOHO China was successfully listed on the Stock Exchange of Hong Kong raising proceeds of USD \$1.9 billion, Asia's largest commercial real estate IPO then.

Xin (Shynn)'s rags-to-riches story has embodied the rise of China's entrepreneurship, making her a celebrity CEO at home and a sought after voice on China abroad. Active on Weibo, China's "twitter", Xin (Shynn) frequently shares her view on business, entrepreneurship and fitness with her over 10million followers. She also sits on the Global Board of Advisors at the Council on Foreign Relations, Board Member of the Asia Society, and is a member of the Asia Business Council and the Harvard Global Advisory Council. Xin (Shynn) holds and honorary Doctor of Laws from the University of Sussex and has served as visiting fellow at Harvard Kennedy School.

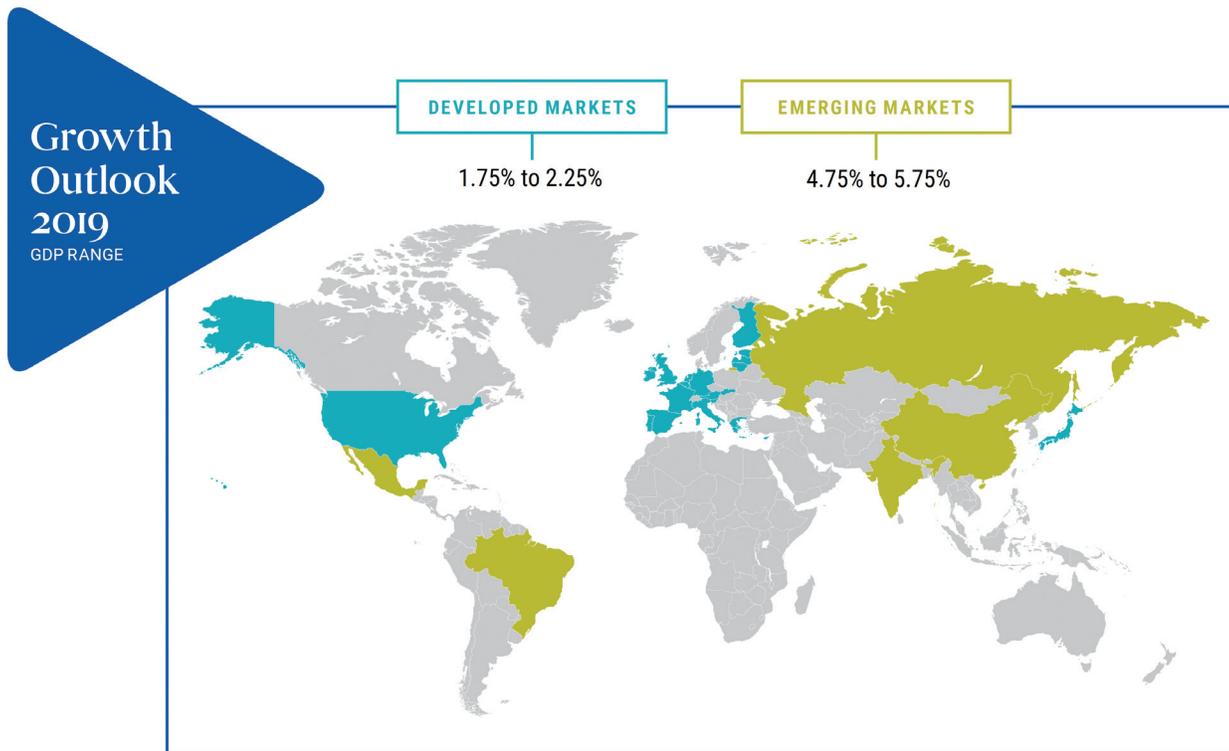
Recognized for their commitment to sustainability, Xin (Shynn) and her husband Pan Shiyi are members of the Breakthrough Energy Coalition spearheaded by Bill Gates to fund technology developments that will enable a zero-emissions energy future. The Company has taken great strides to build LEED certified developments and all SOHO China properties use smart technology to achieve up to 40% energy saving.

The Deficit

The economy is sound. But Uncle Sam's finances look increasingly shaky. The combination of lower tax rates and increased spending lifted the deficit to \$898 billion in the first 11 months of fiscal year 2018, which ended on September 30, 2018. That's a one-third jump from the same period a year ago. At this pace, the deficit will surpass \$1 trillion in fiscal 2019, with no end in sight for the surge of red ink. Both parties in Congress favor policies that would further swell the deficit. Republicans would like more tax cuts. Democrats

more spending on health care. Expect the cost of running big deficits to keep growing as interest rates rise and the amount of federal debt now \$21.5 trillion climbs skyward. The price tag for servicing the debt is up 13% this fiscal year, to nearly \$492.5 billion, money that can't be spent on defense, education, scientific research or anything else. It's not a near-term crisis. But it's also not sustainable in the long run. Eventually, lawmakers are going to have to curb spending, raise revenue or both.

Source: *The Kiplinger Letter*



	REAL GDP GROWTH (% YOY)			CPI INFLATION (% YOY)		
	2017	2018 ESTIMATE	2019 FORECAST	2017	2018 ESTIMATE	2019 FORECAST
DM ¹	2.2	2.2	1.75 - 2.25	1.8	2.0	1.5 - 2.0
U.S.	2.2	2.8	2.0 - 2.5	2.1	2.4	2.0 - 2.5
Eurozone	2.5	2.1	1.5 - 2.0	1.5	1.7	1.25 - 1.75
U.K.	1.7	1.3	1.5 - 2.0	2.7	2.4	1.75 - 2.25
Japan	1.7	1.1	1.0 - 1.5	0.6	0.9	0.5 - 1.0
EM ²	5.5	5.4	4.75 - 5.75	2.4	2.9	3.75 - 4.75
China	6.9	6.4	5.5 - 6.5	1.6	2.3	2.0 - 3.0
Brazil	1.0	1.4	1.5 - 2.5	3.3	3.9	4.0 - 5.0
Russia	1.7	1.8	1.5 - 2.5	3.5	2.8	3.5 - 4.5
India	6.2	7.5	7.0 - 8.0	3.5	4.6	4.0 - 5.0
Mexico	2.1	2.3	1.5 - 2.5	6.2	4.8	3.5 - 4.5
World ³	3.3	3.3	2.75 - 3.25	2.0	2.3	2.0 - 2.5

Note: All data for real GDP and headline inflation are year-over-year (YOY) percentage changes. 2017 is actual data, 2018 is our estimate, and 2019 is our forecast.

¹ DM is the GDP-weighted average of U.S., eurozone, U.K. and Japan.

² EM is the GDP-weighted average of China, Brazil, Russia, India and Mexico.

³ World is the GDP-weighted average of all countries listed in table above.

Source: Bloomberg, PIMCO calculations

Passing the Benefits Earnings Test

A big reason experts advise waiting until at least full retirement age to claim Social Security: You get to skip the benefits earnings test, which hits early claimers who are still working. But there are actually two earnings tests—and the second test can help early retirees leaving work midyear avoid the trap.

The Social Security Administration always applies the annual earnings test first. Based on that test, the agency temporarily withholds \$1 of a worker's benefits for every \$2 earned over \$17,040 in 2018. In a year the worker hits full retirement age, the test is more generous—the worker forfeits \$1 in benefits for every \$3 in 2018 earnings above \$45,360.

In the month a worker hits full retirement age – poof – the earnings test goes away. The worker can earn whatever he or she likes, and the monthly benefit amount will be adjusted upward to take into account all benefits forfeited in the past.

But if you're tripped up by the annual

test, you still have a shot at your full benefit. The agency will apply a monthly earnings test and set your payments according to whichever test is better for you. It helps people who retire in the middle of the year not to be penalized.

The monthly test can be used for only one year, usually the first year of retirement. And it comes into play generally for midyear retirees who have already earned more than the annual limit. Those who pass the monthly earnings test can receive 100% of their benefits for any whole month the agency considers them retired, regardless of total annual earnings.

Taking the Monthly Test

Here's how the monthly earnings test works: If you are under full retirement age for all of 2018, you are considered retired in any month you earn \$1,420 or less each month, the monthly earnings test would open the door to full benefits. If you reach full retirement age in 2018, you are considered retired in any month you earn \$3,780 or less.

Say a beneficiary turns 62 in June. He wants to start benefits in July after working through the end of June and making \$80,000 in 2018. On an annual basis, he'd get no benefit. But in July through December, if he earns \$1,420.

You have to be careful if you go up to \$1,421—then the agency would add the \$80,000. In that case, you would lose a check for that month, but not for other months when benefits are below the monthly threshold. A sneaky five-Friday payday month might end up passing the monthly earnings amount.

When retiring in the year you reach full retirement age, the earnings test only applies in the months prior to the month of your birthday. The higher threshold of \$3,780 would apply if the monthly test is used in 2018. The earnings tests count only earned income from a job or self-employment; investment income, for example, and retirement-plan payouts are ignored.

Source: Kiplinger's Retirement Report

New Employee

Einar Gemio is one of our Operations Administrators. Einar comes to CFS after working for our previous broker-dealer, National Planning Corp. (NPC) for 18 years, as a Premier Services Operations Manager. He carries a 7, 63, and 99 licenses. Einar was born in Bolivia and raised in Hollywood. He enjoys live concerts and long motorcycle rides. He collects vintage bikes and loves working to improve his home in Reseda Ranch.

Einar is excited to have this opportunity working for you at CFS where he can utilize his experience, loyalty, and high quality of service. He is happy to be part of an exclusive firm with a long reputation that serves the community and helps families with their investments decisions.

In Brief:

Europe

- Germany started enforcing a new law that requires social media networks to deal with hate speech within 24 hours.
- Switzerland's central bank posted a record of \$55b in profit last year. Most of the assets are in foreign currencies, which rose in value vs. the Swiss franc.

Asia

- China froze production of 500 vehicle models to reduce emissions.
- Nepal barred solo climbers from Mt. Everest and the rest of its mountains after at least six people perished last year. The measure could mean more work for guides and Sherpas.

Source: Bloomberg Businessweek

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We certainly welcome your referrals and are always most appreciative when clients pass our name along to others. We would like to take this opportunity to express our thanks for your continued confidence and look forward to providing quality confidential financial services to you, your friends, and associates.

When you refer us to others, you can be assured that your personal information provided by you and those whom you refer is treated with a high degree of confidentiality.

Our sincere thanks to our recent referrals goes to:

Yvette Davis

Galen Petoyan

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HAPPY BIRTHDAY

NOVEMBER

3 - Kyle Reynish
3 - Marilyn McAdam
6 - Dino Fulgoni
6 - Deron Petoyan
9 - LeeAnn O'Toole
9 - Lori Cruz
10 - Victor Bornia
10 - Steve Purcell
13 - Phil Clements
16 - Connie Froeberg
16 - Terry Stone
17 - Barbara Orr
19 - Debbie Ruggiero
20 - Rayna Boehme
20 - Marisa O'Neil

21 - Carole Zwickel
22 - Carol Barber
23 - Craig Bremner
23 - Cynthia Schmidt
25 - Marsha Munemura
26 - Sherry Klein
27 - Muriel Parker
28 - Paul Lester
29 - Catherine Milward
30 - Al Sanchez

DECEMBER

1 - Laura Male
3 - Geoffrey Sindon
4 - Carol Mackin
5 - Ted Martinez

5 - Richard Long
8 - Mary Lumel
9 - Marion Aranita
9 - Jeremiah Small
10 - Dave Bochard
14 - Paul Kasper
15 - Bruce C Hardinghaus
16 - Mitch Kaye
16 - Rich Johnson
18 - Robert Drake
18 - Claudia Squibb
20 - John L Wolcott
21 - Sharon Wienke
22 - Kari Groth
23 - Cindy Booth
23 - Erna Haag

23 - Stephanie Sedhom
27 - Lehman Eaton
27 - Mark Saldana
28 - Harlene Button
28 - Richard Male
28 - Isabel Pahoyo
29 - Susan Moyer
31 - Mike Malone



Brain Teaser #102

Number Square

Each lettered box in the grid contains a number from 1 through 9. Use the clues to put the digits in their proper places. Each number is used only once.

CLUES

1. The top row contains only multiples of 3
2. The far-right column contains only even digits
3. $E + F = A + G$
4. $B + H = J$

A	B	C
D	E	F
G	H	I

The first person with the correct answer will receive an American Express gift card. Please email your answer to Kayleigh@cfsburbank.com or call (818) 846-8092, ext. 7.

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In This Issue

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Brain Teaser #101 (Answer)

"A Puzzling Perspective"

The answer is "NEANDERTHAL"

Thanks for all of you who submitted the answers! The first person with the correct answer was Lilo Holzer. *Congratulations, Lilo!*

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