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CLIENT BULLETIN

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➤ *Lots of Baskets*

Diversification is one of the hallmarks of a well-designed investment portfolio. I recently did an evaluation of a representative portfolio and found the following:

- Stock positions in well over 2,000 different companies.
- The largest single position in any one company represented less than 1% of the overall portfolio.
- Exposure to over 50 different countries and 25 different currencies
- Over 20,000 different debt instruments

➤ *DOA Budget*

President Obama recently released his fiscal 2013 budget. This proposal attempts to balance the budget through two primary means: 1) reducing and slowing the growth of defense and non-defense discretionary spending; and 2) increasing taxes on individuals earning more than \$200,000 and couples earning more than \$250,000. Since Republicans control the House of Representatives, there is little chance that this budget, or anything like it, will ever pass into law.

➤ *Still Instructive*

Despite the slim chance for passage, the document can still instruct us on what it will ultimately take to address the nation's debt and deficit problems. Were the changes implicit in the budget implemented, and assuming that the economy grows at the same rate it has for the past three years, our deficit would remain close to \$1.5 trillion a year over the next five years; very close to the \$1.6 trillion of record red ink recorded in 2011. Why? Because the budget proposal neglects to address the "entitlement" spending categories of Social Security, Medicare and Medicaid. Left unaltered, these programs will consume roughly 50% of the budget in just five years. ***Without a direct consideration of these programs, there can be no substantive spending control.*** Sorry to be a broken record.

➤ *Economics 102*

The global financial crisis and the U.S. government's response have highlighted a long-running debate concerning how, or if, government should deal with economic and financial cycles. In Keynesian economics, named for famed economist John Maynard Keynes, government plays a significant role in managing the private sector which is thought to be inefficient and cause disruptions in the economy. It would argue that more stimulus spending will lead to economic growth which will eventually solve the deficit created by the initial stimulus. Keynesian economics provided the theoretical underpinning for economic policies undertaken in response to the crisis by Presidents George W. Bush and Barack Obama. In contrast, Hayekian economics, named after noted Austrian economist Friedrich Hayek, argues that government stimulus or bailouts given to large companies (like banks and automakers) make it difficult for other companies to compete and discourage efficiency and competition. While the Hayekian method seems like tough love in the short run, economic recovery is expected to be achieved sooner rather than accumulating government debt to attempt to smooth out the business cycles under the Keynesian approach. The limits of the Keynesian approach are certainly being tested with the nation facing massive debt.

➤ *Affordable Healthcare Limitations*

A recent decision by President Obama requiring health insurers to pay for contraception and surgical sterilization drew heavy fire from many quarters. It probably isn't the last time you will hear about a government decision affecting your healthcare options – after all, if they are paying for a greater proportion of it then they will certainly have a say as to the type and level of care you can receive. Under the Affordable Healthcare Act (aka Obamacare) a single committee called the United States Preventative Task Force is empowered with evaluating preventative health services and deciding which ones must be covered by health insurance plans. The task force is the only federal health agency to have explicit legal authority to consider cost as a criterion in recommending whether patients should use a medical test or treatment.

➤ *A,B,C or D?*

The task force rates preventative medical services with a letter grade of “A” through “D”. Services rated “A” or “B” - such as colon screening for adults 50-75 – must be covered by health insurance plans in full, without any co-pays. This “Stage 1” thinking seems like a good idea until you move to stage 2. Here, insurance companies that are required to pay for 100% of certain services will be forced to take one of two approaches in order to stay in business: 1) raise their premiums; or 2) eliminate other services that they aren't required to cover. Since another provision of the Affordable Healthcare Act allows the government to regulate the premiums charged by health insurance companies, they will generally be left with option 2. As a result, many services that get a “C” or “D” grade from the government task force – such as screening for ovarian or testicular cancer – will most likely get nixed from coverage entirely. I don't have the answer for healthcare coverage in the U.S. but I'm fairly certain this isn't it.

**The information contained in this newsletter is of a general nature and should not be acted upon in your specific situation without further details and/or professional assistance.*