*This Publication Brought To You Courtesy Of:*

STEVEN F. CARTER
CERTIFIED FINANCIAL PLANNER™ Practitioner

4225 Executive Square, Suite 1030
La Jolla, California 92037-1486
Phone: (858) 678-0579 · Fax (858) 546-0792
E-mail: steve.carter@lpl.com
www.stevecarterfinancial.com

CARTER FINANCIAL

# CLIENT BULLETIN

***June 2015***

## ➢ *Creative Destruction*

Executives of companies listed in the Standard & Poor's 500 Composite Index should be nervous. At the current turnover rate of companies going in and out of the S & P 500, 75% of corporations in the S & P 500 will be replaced by the year 2027. Just in the last 10 years, companies that once dominated their industries (Sears, The New York Times, Eastman Kodak) have been removed from the S & P 500 as rivals employed new technologies that disrupted old ways of doing business. On the other end of the spectrum, companies that disrupted the status quo like Apple, Google and Amazon are now household names. The pace is picking up as well – in 1958 companies stayed in the S & P 500 index an average of 61 years. During the last decade, about half of the companies in the S & P 500 were replaced. (Source: S & P Capital IQ)

The S & P 500 is an unmanaged index which cannot be invested into directly. Past performance is no guarantee of future results. Investing involves risk including possible loss of principal

## ➢ *Negative Yield?*

Central banks in Europe are following the U.S. Federal Reserve's lead in flooding their economies with cash (stimulus) in an attempt to get growth going. They do this by purchasing their government's bonds, which pushes the price of the bonds up, and their yield (the interest rate the bond pays) down. This coupled with investor's desires to park assets in bonds of stable governments has created a unique situation – the yield on some government's bonds has gone negative. In other words, some investors are loaning money to governments and **paying** interest, rather than receiving it, for the privilege. An extreme case is Switzerland, where you can buy a 10-year government bond with a negative yield. You have to have a pretty bearish view of the world to guarantee yourself a loss over the next ten years vs. other investment options out there. (Source: Vanguard Economics).

## ➢ *Housing Turnaround*

Owning a home is now twice as affordable as renting. On average, U.S. homebuyers spend approximately 15% of their income on their monthly house payment; whereas renters in the U.S. currently spend an average of 30% of their monthly income on rent. This analysis excludes insurance, maintenance and taxes that come with owning a home vs. renting, but the general trend is clear. (Source: US Housing Department)

- ***Better Service = More Money***

Medicare is scheduled to link physician payments to the "quality" of service provided beginning in the year 2019. Before then, Medicare must decide which measurements will be used to determine "superior vs. inferior" physician service. There are 2167 metrics to be evaluated on the initial measurement list. (Source: Agency for Healthcare Research and Quality)

- ***Good Odds***

Only .9% of individual taxpayers were audited by the Internal Revenue Service (IRS) in 2014, the lowest percentage in seven years. Taxpayers earning between $200,000 and $1 million annually carry a 2.2% chance of being audited, while those earning over $1 million face a 7.5% chance of being audited. (Source: Internal Revenue Service)

- ***Still in Question***

Although a full legislative repeal of the Affordable Care Act (ACA) is unlikely, the law is not out of the woods yet. The Supreme Court is currently hearing the case of King vs. Burwell. The ACA provides premium subsidies to families with incomes below a designated threshold (currently around $95,000 for a family of four) that buy health insurance on a state "exchange" (typically a website). In writing the law, Congress assumed each state would establish its own exchange, but in fact only fourteen states did so. In the remaining 36 states, the exchange is operated by the federal government (healthcare.gov). Specific language in the ACA legislation provides that an eligible insured can only receive a premium subsidy when buying insurance on an exchange "established by a state."

- ***Big Decision***

Challengers to the law assert that those buying insurance in the 36 states using the federal website are not doing so on an exchange "established by a state" and thus are ineligible to receive a subsidy. If the Supreme Court accepts that argument, it could cripple the law. Without subsidies, many healthy Americans are unlikely to sign up and would choose to pay a penalty instead. Insurance carriers will find it difficult to participate in a system where only sick people have health insurance, yet premiums cannot be increased to reflect the additional risk. Stay tuned – the Supreme Court is likely to issue its opinion in the next few weeks and the future of nearly 20% of the U.S. economy will be affected.

- ***Bad Advice***

The National Bureau of Economic Research tracked the 2,000 college football players drafted during the 8 years from 1996-2003. 1 out of 6 of them filed for personal bankruptcy within 12 years of retiring from the league.