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CLIENT BULLETIN

January, 2013

- ***Congress in Action?***

In the early morning hours of January 1st, Congress passed the American Taxpayer Relief Act of 2012 (ATRA) and President Obama quickly signed it into law. The Act was designed to avoid the "fiscal cliff" of tax increases and government spending cuts that may have had a detrimental effect on the U.S. economy. Taxes were increased on everyone via tax rate increases for individuals/couples earning more than $400,000/$450,000 respectively and the expiration of a payroll tax holiday for everyone else. The compromise did not seriously address the deficit problems that prompted Congress to write the laws that created the fiscal cliff in the first place.

- ***Kicking the Can – Backwards.***

After digging through reams of analysis, research and commentary looking for the key takeaways from the last-minute legislation, you arrive at the conclusion that there is nothing to analyze. The common expression is that Congress chose to "kick the can down the road", but from the perspective of balancing the federal budget, that phrase is far too generous. Compared to doing nothing, the Congressional Budget Office (CBO) estimates that ATRA will **ADD** $4 trillion to the US government's debt over the next 10 years because there was no government spending restraint. Once again, Congress told us what we wanted to hear rather than what we need to hear.

- ***Next Up.***

The "fiscal cliff" was meant to be a forcing mechanism for Congress to address our government's unsustainable budget situation. With Congress having proven that a forcing mechanism isn't really a forcing mechanism if you can delay it, we are set up to hear about all of these issues again very shortly. The next showdown comes in the form of the government breaching its $16.4 trillion debt ceiling (the amount of debt it is allowed to have) in late February followed by a return of the "mandatory" spending cuts that were just bypassed which resurrect on 3/1/13.

➢ *Grand Bargain*

In order to get the country's finances on a sustainable path, Congress eventually needs to constrain the nation's debt so that it declines as a share of our Gross Domestic Product. Failing to do this will have serious implications. If investors see us continuing down a profligate path, the value of government bonds and the strength of the U.S. dollar will almost certainly diminish. A few years ago President Obama appointed a bipartisan commission known as Simpson-Bowles to address the situation. Their recommendations, which were ignored, specified a ratio of $4 of spending cuts for every additional $1 of increased revenue (higher taxes) as a way to move toward a balanced budget. This heavier reliance on spending cuts vs. increased taxation appears to be the most reasonable path toward a balanced budget – a spendthrift will always have a "revenue" problem.

➢ *It's Not All Bad*

The foregoing issues, along with a healthy dose of negative media bias, may cause you to view the future of the economic world in a dim light. Fortunately, the fiscal, monetary and economic mistakes of ***countries*** don't constitute the entire world economic picture - businesses and consumers make up the majority of the global economic pie and the financial circumstances of those groups are in far better shape than governments. Businesses are lean, cash-rich and waiting for the tax and regulatory uncertainty to clear while individuals are cleaning up the excesses of the last boom period. Meanwhile, the economy has experienced 13 straight quarters of economic growth and vehicle sales and residential construction are up 13% and 19% respectively from a year ago. Call it the plow horse economy.

➢ *Pessimism Skunked Again*

On a broader scale, consider the staggering economic progress in the developing world; the cost of computing falling by 98% since 1999; hyperbolic advances in nanotechnology (think tiny man-made particles embedded in glass to make it stronger **and** lighter); 3-D digital printing (converts digital information into tangible products–anyone up for "printing" chocolate?); and healthcare advances that have brought the cost of mapping the human genome down from millions of dollars to $1,000 today. Maybe most importantly, the United States is on track to move from dependency on foreign oil to being the world's leading oil producer in the next 10 years thanks to fracking technology. These viewpoints give us a more balanced, and realistic, view of what is going on in the global economy.

➢ *What You Can Do*

So what should each of us do to be financially successful in 2013 and beyond?

- Have confidence that the U.S. and global economy will overcome the hurdles governments create for them
- View Washington as a sideshow
- Employ sound, proven financial strategies designed to achieve long-term goals

Looking forward to 2013. Happy New Year.