



This Publication Brought To You Courtesy Of:

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CLIENT BULLETIN

November 2014

➤ *New Employee*

Please welcome a new administrative assistant at Carter Financial, Christina Mitchell, who is replacing Heather McCune who moved to Northern California. Christina has a Bachelor's degree in economics from San Diego State and recently worked in the Biotech industry as an operations assistant. You can reach her at Christina.mitchell@lpl.com or phone extension 18. As with all employees, Christina went through a battery of background checks before being hired.

➤ *Inflation Bump*

The Social Security Administration announced that monthly checks will rise by 1.7% in 2015. The increase is based on the increase in the Consumer Price Index. The average retiree will receive \$1,328 per month or \$15,936 a year. Automatic cost-of-living adjustments (COLAs) for social security began in 1975. The highest COLA was 14.3% in 1980, while the lowest was 0% in 2010 and 2011. (Source: CNNMoney)

➤ *Bricks and Mortar*

Amazon.com, the online juggernaut whose rapid expansion helped derail many a brick-and-mortar retail chain, plans to open its first physical store in New York in time for the holiday-shopping season. It would be the first brick-and-mortar outlet in Amazon's 20-year history. The idea isn't as crazy as it sounds - a recent study shows that internet shopping, while a growing trend, still isn't the end-all in retail. The study found that two-thirds of customers making purchases online in 2013 used a brick-and-mortar store before or after the transaction. A combination of a physical store and a digital presence is the best formula for maximizing sales, building customer loyalty and creating cross-selling opportunities. (Source: A.T. Kearney)

➤ *Longevity*

Longevity, and the corrosive effects of inflation that go with it, are the greatest risks to a secure retirement. There are "standard" mortality tables that give you an idea of your probable mortality age, but of course a more realistic projection depends on your ancestry, current health, diet, exercise regimen etc. For an eye-opening look at your projected mortality age try out the website www.livingto100.com.

Steven F. Carter, CFP® is a Registered Principal with and securities offered through LPL Financial, Member FINRA/SIPC.

➤ ***Plunging Bullion***

The price of gold bullion has dropped from \$1,888.70 per ounce on 8/22/11 to just under \$1,200 per ounce recently, a decline of roughly 37%. In response, mining companies have been slashing costs in an attempt to offset the drop in the price of gold. Breaching the \$1,200 per ounce price is a critical level for the mining industry. The all-in cost of producing an ounce of gold cannot go much below \$1,200 and some miners may opt to close mines if the price falls much further. (Source: Thomson Reuter's GFMS metals research).

➤ ***Debt; Define Debt***

When discussing the size of the national debt, it is important to clarify which debt we are talking about. Most news organizations define the national debt as the sum of all outstanding Treasury securities held by individuals, financial institutions or foreign governments (not just China - Great Britain and Japan are major holders of U.S. debt). This figure is roughly \$12.7 trillion currently. Others use the term "total" debt, which includes the figure above plus the amount of outstanding "intra-governmental" debt. Intra-governmental debt is the amount of Treasury bonds held by agencies of the federal government such as social security. This type of debt totals approximately \$5.2 trillion yielding a "total" debt of just under \$18 trillion. (Source: Congressional Budget Office).

➤ ***Which Debt to Use?***

So should intra-governmental debt be counted when discussing the size of the national debt? I think the answer is yes. Does having one arm of the federal government (social security) own IOU's from another arm (the Treasury) help the government as a whole cover its' bills? Thinking about it more concretely, when the Social Security Administration (SSA) gets ready to send payments to retirees each month, it taps into the social security "trust fund" to make the payments. Unfortunately there is not any real money in the trust fund, just special, mythical bonds issued by the United States Treasury. Where does the Treasury get real money to give to the SSA to send out checks to retirees? They clearly don't have it sitting around – they have \$12.7 trillion of debt and \$½ trillion annual deficits. The answer is they borrow it by selling Treasury instruments. By doing this the "intra-governmental" debt is converted into publicly held debt which is why I believe it should be counted in the size of our national debt. (Source: Congressional Budget Office)

➤ ***What Really Matters***

While these numbers are fun to play with (or not), what's really important is the size of the debt relative to the nation's gross domestic product (GDP), just as personal debts must be measured against personal income before they can be properly evaluated. The GDP of the United States is roughly \$18 trillion leaving us with a 100% total debt to GDP ratio. This figure in and of itself isn't as concerning as the direction. After a few projected years of this ratio staying level, it begins to soar as social security and Medicare costs of baby boomers ramp up. Our best bet is to do what we did after World War II, stop adding to the debt and let the growth of the GDP bring the ratio down. (Source: Congressional Budget Office)

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