This Publication Brought To You Courtesy Of:

STEVEN F. CARTER
CERTIFIED FINANCIAL PLANNER™, Practitioner

CARTER FINANCIAL

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

CLIENT BULLETIN

February 2015

- ***$18,102,791,754,469***

I couldn't resist numerically displaying the balance of the United States government debt. Of course it will be higher by the time you read this – it goes up by **$1.4 billion per day**. (Source: U.S. Treasury).

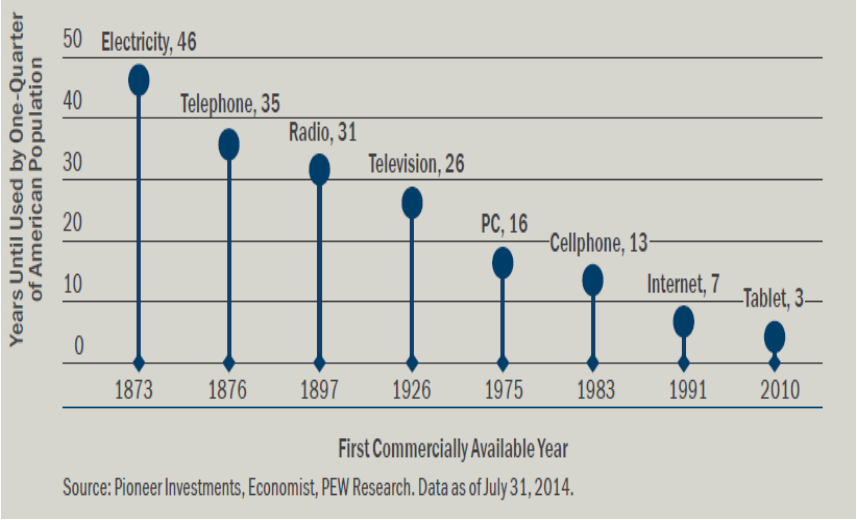
- ***Peak Oil?***

Can it have been just a little over ten years ago when BusinessWeek's cover story interrogatively headlined "A Saudi Oil Shortage?" The article posited that the Saudi's were overestimating their oil reserves and when the truth came out oil prices would skyrocket. The article assumed the repeal of one of economics most immutable laws, that of the commodity cycle. The law is beautiful in its simplicity: ***supply varies directly with price; demand varies inversely with price***. Rising prices for ***any*** commodity simultaneously bring to market increased supplies while suppressing demand. When burgeoning supplies overwhelm decreasing demand, prices decline toward whatever equilibrium price will clear the market.

- ***What About Today?***

What we are seeing today is the converse of the situation 10 years ago. The horizontal drilling/hydraulic fracturing revolution (made practicable by $100+/barrel oil by the way) has created a burgeoning supply of oil. The inevitable result is the price of oil falling (although maybe not in the sudden way it has collapsed, but you get the point). Media-types consciously ignore the law of commodities and project the price of oil to $20 or $30/barrel. More likely is that the relatively low price of oil will lead to cutbacks in the development and production of planned incremental increases to supply along with the insolvency of marginal or overleveraged industry participants. At the point where demand overwhelms diminishing supply, the cycle bottoms and prices advance to a higher equilibrium. If all of this is reminding you how much you loathed the obligatory economics course you had to take in college, just remember this: the cure for high commodity prices is high commodity prices and the cure for low commodity prices is low commodity prices.

➢ *Innovation Nation*



Technology is of course advancing, but it is doing so at a rate that most of us can't fathom. The problem is that we are conditioned to the idea of linear growth – progress that marches steadily forward. Science, however, does not follow a linear path. In 1965 Gordon Moore, co-founder of Intel, predicted that computing power would double every two years - a phenomenon that became known as Moore's law. It is an example of geometric or exponential growth that is hard to grasp. Computing power has indeed increased a million-fold since 1975, providing a $400 smart phone with the same computational power of a $5 million, room-sized mainframe. Societal adoption of technology is increasing at the same exponential rate – the chart above shows how many years it took for major technological advances to be adopted by ¼ of the population.

➢ *Challenging Employment Trends*

This technological innovation has a dark side. Automation, use of robots and off-shoring of clerical, IT and education-related jobs have created disturbing employment trends: the participation rate (% employed full time vs. total population) has fallen off and the number of manufacturing jobs in the United States has declined by 7 million over the past 3 decades. This has led to a national debate as to whether technological progress will result in a structural (permanent) rise in the unemployment rate. (Source: Bloomberg. Data as of July 31, 2014)

➢ *The Bigger Picture*

If the past is any guide, this fear is unfounded. Since the first Industrial Revolution in the 1800's, technological advances have initially generated uncertainty. At the turn of the 19th century, approximately 75% of the U.S. population worked on farms. Since that time, millions of agriculture jobs have disappeared as only 2% of Americans now work on farms. Yet over this time frame, the economy and employment have continued to grow. How could this be? The answer is that accelerating innovation ultimately creates more jobs than it destroys. New jobs in the industrial and service sectors far outweighed job losses in the agricultural sector leading to a dramatic increase in prosperity.

➢ *Gaps*

The same dislocations are occurring now as we transition to a knowledge-based economy that will rely increasingly less on human labor to manufacture goods and provide services. As in the past, a "skill gap" has been created, partially by an educational system designed for an era of manufacturing plants and assembly line rote learning. This gap will eventually be filled through education, training and a redirection of resources, but the transition will be difficult for those unable, unwilling or without the resources to adapt to the changing economic landscape.