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CARTER FINANCIAL

CLIENT BULLETIN

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➢ *Don't Let the Ink Dry*

On December 18th 2015 president Obama signed a bill that abolished the ban against exporting crude oil - a relic of the 70's-era fear of an oil shortage. Less than two weeks later, on New Year's Eve, ConocoPhillips shipped the first freely traded cargo of U.S. oil from Corpus Christi, Texas to Bavaria. Big energy infrastructure companies have spent the past five years pouring billions of dollars into building new pipelines, storage tanks and docks at ports as the need to move energy products around the country has increased. With the elimination of crude oil export restrictions, the United States, which is currently the world's largest oil and gas producer, can export crude the same way it currently exports other refined products, including gasoline. (Source: U.S. Dept. of Commerce)

➢ *Here We Go Again*

With the price of gasoline having dropped precipitously (everywhere except Southern California that is), guess what the United States is doing. That's right – we are increasing our number of miles driven and leaving those Prius' on the lot in favor of SUV's. Thus the laws of supply and demand will again reassert themselves – low prices lead to more demand, which eventually leads to higher prices.

➢ *Not Your Friend*

It is vitally important to understand what the ultimate goal of the financial media is: ***they exist to get you to consume more financial media***. This goal isn't just different from yours, it is antithetical. Your goal is to become or remain financially secure and independent; their tactic is to scare you out of your wits so you won't turn them off. You cannot get sound advice from the media – it doesn't know you or care about you. A solid long-term plan for financial independence is not threatened by turbulent times like we have had recently. If your goals have not changed then your investments don't need to change. One of the best financial decisions you will ever make is to turn off the financial news and focus on your family, health, work, hobbies or some other productive activity and let time do the heavy lifting in your financial plan.

➢ *Temporarily Tamed Inflation*

Inflation, as measured by the Consumer Price Index, increased by just .73% in 2015. Only one year in the past 50 (.09% in 2008) has seen lower inflation. (Source: Department of Labor)

➢ *Island Blues*

You have probably heard about the fiscal woes faced by the Commonwealth of Puerto Rico. The island has $72 billion of government debt and is out of cash. In September of 2015 they put forth a plan saying they needed **$14 billion** of debt relief over the next five years. Now, just four months later, government officials have upped their estimate of needed debt relief to **$34 billion**. The economic statistics are grim: Puerto Rico's economic productivity has declined every year since 2006; 45% of residents sit below the federal poverty line; its population is down 7% and the youth unemployment rate is 27%. How did they get to such a sad state of financial affairs…?

➢ *Caught In-Between*

As a U.S. Territory, Puerto Rico is caught in a fiscal and economic limbo between being a state of the U.S and an independent Caribbean nation. A couple of examples: in the 70's, Congress amended labor laws to bring Puerto Rico's minimum wage in line with the level in the U.S. While the minimum wage is 28% of the average wage on the mainland, it represents 77% of Puerto Rico's average wage, which hurts employment. Secondly, the federal Jones Act, a century-old shipping measure, allows only U.S. based merchant ships to enter Puerto Rican harbors. This restriction of trade raises the cost to transport goods to Puerto Rico, which hurts consumers, especially the poor. (Source: National Bureau of Economic Research).

➢ *Solutions. Not So Fast*

Just as their economic situation is unique, so too are their potential solutions (or lack thereof) due to their unique status:

- Many have suggested that Puerto Rico be allowed to declare bankruptcy to give them a fresh start, but that can't happen. U.S. territories (like U.S. states), cannot legally declare bankruptcy. There is no "Detroit" solution unless Congress changes the law.
- The government has raised taxes to try and close the budget gap, but Puerto Ricans are U.S. citizens and can move freely to any of the 50 states – which many have done to nearby Florida.

➢ *Solutions/Implications*

The only viable solutions are difficult and long-term, including cutting a bloated government and welfare structure along with increasing global competitiveness. The current situation Puerto Rico faces is what happens when you run out of road to kick the can down. Hopefully the U.S will see this as a financial canary in a coalmine & not continue to promise undeliverable benefits.

➢ *Speaking of Debt*

Unfortunately, Puerto Rico's plight doesn't seem to be setting off alarm bells in the U.S. The United States has been tracking the federal debt since 1789. Over the **219 year time period** from 1789 to **3/5/2008**, the U.S. accumulated **$9.38 trillion** of total public debt. The current debt balance is approximately **$18.9 trillion** which means we have added **another $9.5 trillion** to the total in the last **8 years** – roughly the same amount we added over the first **219 years**. Look for more of the same - on 1/19/16, the Congressional Budget Office (CBO) projected that the federal government will add another **$9.38 trillion** to the federal debt **over the coming 10 years**.