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CLIENT BULLETIN

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➤ *Room to Grow*

The U.S. population gains a new person, through net births and migration, every fourteen seconds. And yet geographically, the U.S. has almost unimaginable room to grow when compared to the world's living standards. Population density per square mile in the U.S. is 85, compared with almost 300 in France, 590 in Germany, 680 in the U.K. and 870 in Japan. (Source: U.S. Census Bureau)

➤ *Who owns it?*

With all of that land available, it's interesting to note who owns it. The federal government owns 28% of all the land in the United States, a total of 640 million acres (Source: Congressional Research Service).

➤ *Different Views*

Vietnam is an up and coming country with an improving growth outlook thanks to structural reforms including privatizing some state owned enterprises. A Pew Research Center survey found that 95% of the Vietnamese population stated that they favor capitalism over any other economic system. When Pew asked the same question of a sampling of the U.S. population, they found that only 70% of the population placed capitalism first.

➤ *Quiet, I'm Thinking (or not)*

A study at Harvard and the University of Virginia (Wilson et. al. 2014) attempted to determine why investors chronically make bad decisions. The researchers offered volunteers across a wide age range the opportunity to sit quietly by themselves for fifteen minutes, the only demand being that they be quiet and think. This proved to be too much for many. Two-thirds of the men in the study chose to give themselves at least one electric shock during the test period in order to avoid thinking (why am I not surprised). Women were much less averse to thinking and only a quarter of them chose to shock them. The bottom line, however, is that we humans tend to be cognitively lazy which in the investment world equates to reading a headline and making an investment decision based on it.

➤ *Less Than it Used to Be*

The average price of gasoline nationwide was **\$1.813 a gallon** at the end of last month. The average price of gasoline nationwide in 1966 was 32 cents. After adjusting for inflation over the last half century, the 32-cent price in 1966 is equivalent to **\$2.38** in 2016 dollars, i.e. today's gas price is 24% cheaper than prices 50 years ago after adjusting for inflation (Source: AAA, Department of Labor).

➤ *The Big Short – Correct On The Basics*

I'm no movie critic, but I was interested in the veracity of the financial details that the film presented. The movie accurately relates the basic story: by 2007 housing prices had soared and mortgage lending standards had plunged leading to the creation of millions of dubious mortgages, most with adjustable-rate features that would boost required payments when short-term interest rates increased. Those loans were packaged into complex securities that received higher credit ratings than their underlying collateral would have individually. Those securities were then sliced and diced by Wall Street banks and re-sold. Throw in a whole lot of leverage at various steps along the way and you have the seeds of the financial crisis of 2008-2009.

➤ *The Big Short – Short on the Conclusion*

While it sets the stage correctly, the film presents us with an incomplete conclusion. As a morality play, it places "blame" for the financial crisis primarily on the Wall Street banks. Were they greedy? Sure. Unlikeable? Check. But criminally knowing they were perpetrating a fraud? That's a stretch (in my opinion). As with most financial flops, the financial crisis of 2008-2009 was largely unintentional. The root cause of the crisis was the nearly universal belief that housing prices always go up. The list of people who willingly bought into that fantasy is nearly endless. Nobody was forced to buy houses or overstretch for a mortgage. Nobody forced banks to write those mortgages. No one forced Fannie Mae and Freddie Mac to buy the loans and securitize them. Nobody forced politicians to make well-meaning but misguided policies that encouraged home ownership for some who couldn't afford it. People did all of these things because they thought it would be to their benefit. Bubbles, unlike fraud, generally don't emanate from a single evil source; they come from people behaving like...well, people. But that wouldn't make a very good movie, would it?

➤ *April 18th?*

Tax returns are due on Monday April 18th this year. April 15th is a Friday, so why aren't they due on the 15th? The reason is a bit convoluted – when April 15th falls on a Saturday, a Sunday or a legal holiday, a return is considered timely filed on the next succeeding day that is not a Saturday, Sunday or legal holiday. The term "legal holiday" includes a legal holiday observed in the District of Columbia. As it turns out, Emancipation Day, on Saturday April 16, is a legal holiday in the District of Columbia. When April 16 is a Saturday, the preceding day is the observed holiday, so in this case April 15th is the legal holiday thereby pushing the tax deadline to Monday April 18th. Got that?

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