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CARTER FINANCIAL

CLIENT BULLETIN

March 2017

➢ *Fiduciary Delay?*

In the October 2016 edition of this client bulletin we mentioned new Department of Labor regulations that were scheduled to take effect in April this year. The rule requires financial advisers to adhere to what is called the fiduciary standard – which means acting in their client's best interest instead of their own - when giving advice regarding retirement accounts. Frankly it's amazing this isn't already a law. Once President Donald Trump won the election, it was widely believed that it would only be a matter of time before an executive order delayed the April deadline. Now, however, the outcome has become murky. On February 3rd President Trump issued a presidential memorandum which did ***not*** include a provision to delay the regulation. Stay tuned. Most of this is a bit baffling - why shouldn't all financial advisors be governed by laws that require them to act in a fiduciary manner, and not just regarding retirement accounts; why not all aspects of financial advice? Attached to this Client Bulletin e-mail is a Fiduciary Oath that all financial advisers should adhere to regardless of regulations.

➢ *The Perils of Protectionism*

"Protection will lead to greater prosperity and strength." U.S. president Donald J. Trump, in his January 20 inaugural address.

From an economic perspective, the foregoing statement is virtually indefensible. Thus, the need for some refreshers on the economics of trade. Three considerations before we begin: 1) what follows is an economic analysis, not political; 2) it is premature to analyze policies that have not yet been formed; 3) beware economic geekiness and severe oversimplification.

Now that the disclaimers are out of the way, here we go:

The explanation for why protectionism is ultimately counterproductive goes back to a British classical economist named David Ricardo. In 1799 Ricardo hit upon the theory of comparative advantage. Comparative advantage holds that the country that can produce a good or service most inexpensively should do so. Everyone else who wants that good or service should acquire it with money that they earn from producing whatever THEY create most inexpensively and efficiently.

So how, you ask, can a thousand employees of Carrier Corporation being able to put presents under the Christmas tree because the then president–elect intervened to keep their American jobs from being shipped to Mexico be anything other than unalloyed good?

➢ *Let It Flow*

This brings us to the heart of the matter. Free movement of capital and output to the most efficient, least expensive producers results in a net benefit to **the world** - the greatest good for the greatest number. No one ever suggested that such free flow is a net benefit to **every person**. Quite the contrary - when we seek to "protect" an uneconomic job (i.e. one that can be done more efficiently/inexpensively in another country) we destroy many more jobs in the process. Steel is perhaps the classic example. If we try to defend the job of an American employed in ***producing*** steel, we ignore the fact that ***steel-using*** industries employee at least 30 times more Americans than do domestic steel manufacturers. Artificially inflated domestic steel prices are passed along to these fabricators which makes their products less competitive in the world market thus forcing some of their employees out of work.

➢ *This Means War*

Moreover, imposing tariffs on imported items likely spurs trading partners to retaliate with tariffs and restrictions on U.S. exports. The result is a decline in U.S. exports and higher consumer prices brought on by reduced foreign competition. The United States is by far the world's largest importer of goods and services at $2.8 trillion every year. Flexing our economic muscle to get fair deals is reasonable, but becoming protectionist is not. Hopefully the House and Senate will not let us get into a trade war (Source: U.S. Department of Commerce).

➢ *Wrapping it Up*

Protectionism exports more jobs then it can ever hope to save. The needlessly expensive "protected" good or service imposes a tax on everyone in America who consumes it. Economics, ultimately, is the science of choice. We can choose the greatest good for the greatest number, or we can try (but ultimately fail history demonstrates) to benefit the few by in fact, taxing the many. What really matters is the total volume of trade – imports plus exports. Robust worker retraining, not artificial "protection", is the key to America's continued economic growth.

➢ *Oops*

In January, the Department of Education reported that ***34%*** of student loan borrowers had either defaulted or had not reduced the principal of their outstanding debt over the past 7 years. An error was later discovered in the government's calculations resulting in the revised statistic that ***54%*** of student loan borrowers have either defaulted or failed to pay down even $1 of principal on their outstanding debt over the past 7 years.

➢ *Less Supply*

There were 1.65 million existing homes for sale nationwide as of 12/31/16, a total that has dropped 460,000 in the last 6 months. The 1.65 million "for sales" is the lowest level ever reported for a statistic that has been tracked since 1999 (source: National Association of Realtors).