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STEVEN F. CARTER
CERTIFIED FINANCIAL PLANNER™ Practitioner

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

CARTER FINANCIAL

CLIENT BULLETIN

May 2017

➢ *Mall Economics – Out with the Old*

No other sector of the economy has been impacted more by the rise of e-commerce than retail real estate – i.e. your local shopping mall. Structural shifts in consumer shopping habits, largely due to Amazon and its third-party vendors, has accelerated the evolution of retail real estate. Over the past 12 months, department stores Macy's, Sears, and J.C. Penney have announced intentions to close more than 300 mall-based stores. Further, specialty retailers such as Payless, American Apparel, and the Limited have filed for bankruptcy leaving more than 600 smaller mall shops vacant. This scenario led one executive of a leading owner of US shopping centers to conclude that "retail real estate in the US is not over built, it's under demolished."

➢ *And In with the New*

Forward thinking shopping center owners are closing tertiary, less productive malls and focusing on flagship centers (think $600 million that is being poured into Westfield UTC in San Diego) that can serve as "Retail-Resort" destinations for shoppers. Those old Macy's and Sears stores are being replaced with high end chef-driven restaurants, children's play spaces and entertainment venues (free Wi-Fi included!). Even some retail concepts that started without physical locations such as Tesla and Amazon itself are establishing brick and mortar presences in key markets. An investment portfolio must keep up with these kinds of shifting economics in order to remain productive.

➢ *Delayed Regulations*

Department of Labor regulations requiring financial advisors to act as fiduciaries when giving advice about retirement plans was recently delayed by two months from the original implementation date of April 10th to June 9th. Before you tune this out, consider that even though the new regulations are delayed, there are two playing fields a financial advisor may be operating on and you need to know which one in your situation. On one field are stock brokers and insurance agents who are not held to the standard of advising you in your best interest. They can make recommendations that are in ***their*** best interest. On the other field (where Carter Financial operates) are registered investment advisors who are required to act as fiduciaries which means their recommendations must be in ***your*** best interest. This doesn't guarantee competence or wisdom, but it sure is a good starting point.

- ***Medicaid***

Although the topic of healthcare reform went nowhere legislatively earlier this year, some changes to Medicaid are critically needed. Medicaid is a safety net originally intended for women, children and the disabled, but it has become the fastest growing program in the federal budget and now insures one out of every five Americans. As an example, it was projected that 910,000 additional people in California would be covered by Medicaid when the Affordable Care Act became law. Actual new enrollment has topped 3.8 million. With a safety net this broad, the program will ultimately not be available for those who need it most. The current system also includes a dysfunctional financial arrangement whereby **states** choose what is covered by Medicaid but **the federal government** picks up most of the tab. Under this system states have little incentive to find more efficient and effective ways to deliver health care to the most vulnerable (Source By The Numbers Research).

- ***Awash in Oil***

As of 3/31/17, the storage of crude oil in the United States reached 535.5 million barrels, an all-time record volume for our country. Quite a difference from the lines at gas stations in the '70's. The 535.5 million barrels, up 56.5 million barrels in just the first three months of 2017, are separate from any oil stored in the "Strategic Petroleum Reserve" which has a capacity of 727 million barrels (Source: Department of Energy).

- ***Personalized Medicine Nears***

10 years ago, it cost $10 million and took several weeks to "sequence a genome," i.e. map out a person's genetic code. Today, the work can be completed for $1,000 in just a few hours (Source: Financial Times).

- ***Tapped Out***

Rising home prices increased the amount of equity in US homes by $568 billion in 2016 to $4.7 trillion. In the fourth quarter of 2016, cash-out refinances accounted for nearly 50% of all refinances as homeowners withdrew $31 billion. That was the most since 2006 and represented a 50% increase from the amount tapped in the fourth quarter of 2015. I'm not sure when most Americans got the idea that when there is equity in your home you are supposed to take it out and do something with it, but that practice has not proven to be a helpful component of a solid long-term financial plan (Source: Black Knight Financial).

- ***Stay the Course***

The current bull market in U.S. stocks has not been kind to assets allocation – the idea of diversifying an investment portfolio among several investment categories. As of early 2017, the S & P 500 had outperformed an asset-allocated portfolio by over 50% over the past 5 years. Investors should not fall into the trap of chasing performance, however, by abandoning diversification in pursuit of an asset class that has "worked" recently. Why? On average, when the S & P 500 has outperformed a diversified portfolio over a 5-year period, over the ***next*** 5-year period it has underperformed by 72% cumulatively (Source: Standard & Poor's; JP Morgan).