CFM UPDATE

FIRST QUARTER 2005

THE QUARTERLY NEWSLETTER OF CARTER FINANCIAL MANAGEMENT AND CARTER ADVISORY SERVICES

# FROM SLEEPING GIANT TO WORLD ECONOMIC POWER: THE RISE OF CHINA

*By William Taylor*

**William Taylor**

How has China gone from Sleeping Giant to the World's Economic Engine? Can China sustain its current growth? Are there concerns or issues related to this astonishing growth for the largest country in the world?

First, you must understand a little about China. China is the world's most populous country and the second largest energy consumer (after the United States), with a rapidly growing economy. Its economy is mixed, with a combination of state-owned and private firms. A number of state-owned firms have undergone partial or full privatization in recent years. The Chinese government has encouraged foreign investment – in some sectors of the economy and subject to constraints – since the 1980s, offering several "special economic zones" in which foreign investors receive preferable tax, tariff and investment treatment.

In March 2003, a long-expected transition in China's political leadership took place. Hu Jintao assumed the country's presidency, as well as chairmanship of the ruling Communist Party. Wen Jiabao became the new premier, and former president Jiang Zemin retained the chairmanship of the Central Military Commission.

With China's entry into the World Trade Organization (WTO) in November 2001, the Chinese government made a number of specific commitments to trade and investment liberalization, which, if fully implemented, will substantially open the Chinese economy to foreign firms. In the energy sector, this will mean the lifting, or sharp reduction of, tariffs associated with imports of some classes of capital goods, and the eventual opening to foreign competition of some areas, including retail sales of petroleum products.

Despite moves toward privatization, much of China's economy remains controlled by large State Owned Enterprises (SOEs), many of which are inefficient and unprofitable. Restructuring of the SOE sector, including the privatization of some enterprises, is a major priority of the government, as is restructuring of the banking sector. Many Chinese banks have had to write off large amounts of delinquent debts from state-owned enterprises.

Layoffs have been part of the restructuring of the SOEs because many were severely overstaffed. This created unemployment, and also burdened the government budget, because the government began providing social benefits that were previously the responsibility of the SOEs. The geographic concentration of privately owned industry in the urban centers along the coast also has created social strains.

The true picture of China's recent growth is more than simply an economy of 1.3 billion people rapidly industrializing. Naturally, as incomes grow, people want those little luxuries, such as a washing machine and an air conditioner. As people migrate from rural areas to the cities in search of a better life, the demand increases for an infrastructure with roads, bridges, hospitals and schools, all of which feeds into the demand for raw materials.

I have heard many experts compare China today to the United States of the 1800s. China's industrialization is showing similar trends to the

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# HOW TO BUY HEALTH INSURANCE ON YOUR OWN

*By Bob Berg, CFP®*

**Bob Berg, CFP®**

If you need to buy your own health insurance, where can you look and how affordable will it be?

The probability of a serious medical expense, incurred by you and/or your family members, is greater than the probability of death or disability during your working years. Therefore, it makes sense to transfer this risk to someone willing to accept it, such as an insurance company that will charge a premium based on the real and perceived risk it is accepting. Accepting high deductibles and co-insurance percentages to acquire more lifetime benefits is normally a good idea.

There are a variety of solutions available. How about spousal coverage? If you are married and your spouse is insured through an employer, family coverage may be available, but be prepared to pay a significant amount to add coverage to your spouse's plan. Nevertheless, you will be paying for group health insurance, which probably will be cost effective.

Recently retired or been severed from employment? If spousal coverage is unavailable, you may qualify for temporary coverage under the federal Consolidated Omnibus Budget Reconciliation Act (COBRA) of 1986. After you leave a company

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# PRESIDENT'S LETTER

## First Quarter 2005

**Bill E. Carter, CFP®, ChFC, CLU**

I was watching one of the early morning news shows the other day when they mentioned they were going to have a segment on "retirement in America." Naturally, this caught my interest, so I paid extra special attention during that report. What I heard was somewhat astounding!

The report was about how "short" most people in America will be – especially the Baby Boomers – in having enough income during retirement to meet their needs. The reporter talked about the fact that most of us probably would have to live on much less income than we were used to living on; however, that was not a problem at all … we would easily live on 40-50 percent of our pre-retirement income.

I am not sure which rock this guy crawled out from under, but let me tell you, you *can* live on that, but you will not be very happy.

Let me pass along about 30 years' of experience observing people retire and the myth that has been perpetrated. Yes, you can retire at 40-50 percent of pre-retirement income. However, the myth fails to describe the drastic lifestyle change most people would endure if this was all the income they had.

The reporter gave an example: Someone who has a house in California could simply sell that house and buy one for half that price in Jacksonville, Fla., and retirement "would be keen."

That would be great, but what if their family and all their friends stayed in California? Plus, what if their work, social and religious life centered in that one area for the past 30 years? That would be quite an adjustment for most people.

I have heard people say throughout the years, "Well, I can live on a lot less and would feel very comfortable. I could live off of 40-50 percent of my income." Again, I am not saying you could not do that, but I strongly question how much you would enjoy it. Most people do not want to drastically change their lifestyle, and certainly, common sense dictates that some things *would* change … minor expenses, such as dry cleaning, business lunches, the cost of going to and from the office and other business-related costs, naturally, would decrease. Nevertheless, while some expenses would decrease in retirement, if you were to substantially decrease other expenses, it would mean a lifestyle change as well.

Let me give you a few examples. Client X went to the country club every Saturday morning for the last 30 years to play golf with his friends and enjoy their company over lunch. He can give that up in retirement and save a lot of money, but would he really want to do that?

When people are used to driving a certain type of car – for example, a Cadillac – they certainly could sell the Cadillac and drive a Chevrolet. While the Chevy is just as effective getting from point A to point B as any other automobile, it does not feel the same and does not drive the same. There's nothing inherently wrong with it, but most people who have driven a luxury car for years will probably not enjoy the step down.

The same theory goes for clothing. Expensive clothing feels a certain way and drapes very nicely. Less expensive clothing will keep you covered just as well, but will you feel as comfortable or as good about yourself? That is the question.

Let me be clear. I place no value judgment on this, and I have observed many people live very comfortably in retirement with a minimum amount of income with tremendous happiness. Others, including many of you reading this letter, would not be satisfied.

Another point made by the reporter astounded me as well. The idea of needing 70-80 percent of your pre-retirement income was simply a "fraud" that was perpetrated on the American public by the financial services industry.

Give me a break. The whole reason we are in business is to help people set financial goals and objectives, and to do everything we can to assist them in reaching these goals so they can retire

| **FINANCIAL TRENDS** | **3/31/04** | **6/30/04** | **9/30/04** | **12/31/04** | **3/31/05** |
|---|---|---|---|---|---|
| Dow Jones Industrial | 10,357.70 | 10,435.48 | 10,080.27 | 10,783.01 | 10,503.76 |
| NASDAQ | 1,994.22 | 2,047.79 | 1,896.84 | 2,175.44 | 1,999.23 |
| NAREIT Composite | 136.52 | 125.64 | 134.00 | 150.94 | 137.88 |
| Russell 2000 | 590.31 | 591.52 | 572.94 | 651.57 | 615.07 |
| MSCI-EAFE | 1,337.07 | 1,327.98 | 1,318.03 | 1,515.48 | 1,503.85 |
| Prime Rate | 4.00% | 4.00% | 4.75% | 5.25% | 5.75% |
| Gold | 420.00 | 395.80 | 415.65 | 435.60 | 427.50 |
| 10-Year U.S. Treasury | 3.83% | 4.59% | 4.12% | 4.22% | 4.49% |
| 30-Year U.S. Treasury | 4.78% | 5.31% | 4.89% | 4.82% | 4.77% |
| 1-Year Certificate of Deposit | 0.9%* | 1.85%* | 2.0%* | 2.25%* | 2.75%* |

*Past performance may not be indicative of future results. Source of Information: Issues of the Investment Book and The Wall Street Journal. *Bank of Texas rate* the way they want. I think it is wrong to assume that people should just live off of 40-50 percent of their pre-retirement income, while with proper planning, they could easily retire on 70-80 percent of their pre-retirement income. Again, with good planning, they should maintain that lifestyle throughout their lifetime.

Maybe I am missing something. I thought that was one of the things this country was all about.

I do agree that many, if not most retirees, especially Baby Boomers, are going to fall short. In fact, many will fall very short of the 70-80 percent pre-retirement income when they retire.

The income required for retirement is based directly on how much you spent prior to retirement. For example, if someone has only spent 50-60 percent, or even 40 percent of their pre-retirement income, then certainly, that will be enough when they retire. However, if someone has spent in the 70-80 percent range (after taxes), this is where they may encounter problems.

So what will happen to those Baby Boomers?

Since the early '70s, I have given speeches stating very emphatically that Social Security would not be enough for retirement, and people need to save and invest. That is one thing that has not changed. What has changed today, and it is something that many people are writing about, is that there will not be enough money in the Social Security Administration trust fund to fund all the future retirees. Today, and especially after the most recent presidential election, you see it in the headlines just about every day.

For those of you who attended Dr. Saving's presentation during our most recent Carter Education Series event in Dallas, you may recall that he made it very clear that by the year 2017, the Social Security surplus will turn to deficits, and that is only part of the problem. Since Social Security's surpluses are spent on other things, there is no money in the Trust Fund on which we can draw. Consequently, cashing in the bonds that have been credited to the Trust Fund will require additional taxes, lower spending elsewhere in the Federal budget, or increased borrowing, creating an impact that is much more substantial. It could mean that we would have to take dollars out of the general revenues system to pay for retirement, resulting in higher ... maybe much higher income taxes.

I am not going to spend much time on this, because the point of this article is that Social Security will not come close to providing enough during retirement for most people anyway.

What *is* going to happen with our financial systems? I think there will be changes in the tax laws that will allow retirees with part-time jobs to draw partial pensions. These are generally forbidden today through our current taxing system.

However, as was stated in an excellent article by Bob Moos in *The Dallas Morning News* on March 21, 2005, he believes there will likely be changes in these laws that will allow this phased in retirement. This will be beneficial for many reasons. For example, many people are not going to have enough money, and this phased-in retirement will give them more time for their assets to grow so they can draw on them later in retirement. Plus, it solves other needs.

To quote from his article, "After years of nudging older workers out of the workforce to make room for younger ones, companies are about to have the opposite problem. As tens of millions of Baby Boomers leave the labor force, there won't be enough younger workers to replace them. Labor analysts predict that many industries will face a severe shortage of skilled workers within a decade."

This phased-in retirement will probably be a solution for most people. However, I have spent my entire career, as have many of my associates all over the country, urging people to save and invest enough money each year. Why? When you retire, you can live a lifestyle that you have become accustomed to; not one that needs adjusting because you do not have enough assets to produce the necessary retirement income.

Bill Carter

Bill E. Carter, CFP®, ChFC, CLU
President

## CARTER FINANCIAL HIGHLIGHTS

- Tom McIntire attended the Davis Funds Due Diligence meeting in New York City, April 14-15. He will attend the Financial Planners Association (FPA) meeting in Dallas on June 3, and the Raymond James Alternative Investments Group Conference in Las Vegas, Nev., June 16-17.
- Tara Scottino attended an IAS User Group meeting in Atlanta, Ga. March 31- April 2; she and Bill Carter will attend the FPA Retreat, May 14-17.
- Tara Timmons married Jacob Chavez on February 21, and Taylor Steele is getting married May 21!
- Janis Jones joined CFM as Bill Carter's administrative assistant on Feb.14.
- Bob Berg, Jerry Mallonee, Tom McIntire and William Taylor attended a PIMCO Funds Due Diligence meeting in Newport Beach, Calif., April 28-29.
- Bill Carter was recently elected to the Asia Financial Planning Journal Editorial Board. He also joined the Board of Directors of The Senior Source, Senior Citizens of Greater Dallas.
- Bill Carter was the guest speaker at the Hunt County Muster Ceremony on April 21. On May 19-20, he will attend the PERC (Private Enterprise Research Center) Board Meeting in College Station, and the North Texas Financial Symposium in Dallas on June 3. He also will attend the Capstone Meeting in San Francisco, Calif., June 12-14.
- Bob Berg, Bill Carter, Kathy Muldoon and William Taylor attended the Raymond James Financial Services National Conference in San Diego, Calif., April 3-7
- Kathy Muldoon will attend the Raymond James Leadership Conference in May.

*"How to Buy Health Insurance"*
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that has provided health insurance, you can maintain that coverage for up to 18 months, in most cases (COBRA doesn't apply, for example, for a company with fewer than 20 employees). You'll pay both the employer's and the employee's share of the expense. This can be quite a bit more expensive than just the employee's share that you may have been paying. However, it still may be less expensive than other alternatives. COBRA may be particularly attractive if you have a serious medical condition that would make the cost of your own coverage even higher or unavailable.

**How about Association Coverage?** If you join a long established organization that provides a wide range of member benefits, you might benefit from group insurance. Typically, the likelihood of finding affordable, comprehensive health benefits is small. Be extra cautious of very attractive initial premiums; they just may be a teaser to much higher rates in the not-to-distant future. Ask good questions before committing.

**What is "managed care?"** Many employers offer medical plans that involve health maintenance organizations (HMOs) or other forms of managed care. You may find that membership in such a plan is an affordable option. You'll pay a set fee, generally per month, entitling you to a wide variety of health care services, perhaps at a nominal per-visit cost. In many geographic areas, managed care is less expensive than other options for individual health insurance, and are especially cost effective for checkups and other preventive care not covered by traditional health insurance. However, you will lose freedom of choice with managed care. Typically, you'll have to go through one physician ("gatekeeper") who will decide whether to refer you to a specialist. If you go outside the approved network, you may have to pay some or all of the cost.

**What about buying a traditional policy, often called an indemnity policy?** Normally available from organizations such as a Blue Cross/Blue Shield affiliate or a private insurance company, these policies are typically expensive. They allow you to pick the doctor or hospital you want, and the insurance will help pay for the treatment you receive.

Besides the premiums, you will also be responsible for the deductibles and co-payments. For example, you may have a policy with a $1,000 deductible, so you pay for the first $1,000 worth of medical treatments each year. Subsequently, you might pay 20 percent, while the insurer picks up the other 80 percent. There may be a stop-loss amount for your out-of-pocket

expenses, after which the insurer pays 100 percent of the medical and hospital costs. The higher the deductible, the lower the premium. Raising your deductible from something like $1,000 to $2,500 should cut your premiums dramatically. With a high-deductible policy, you agree to pay relatively modest medical bills and have protection against a catastrophic loss.

**What is a Health Savings Account?** New in 2004, health savings accounts (HSAs) combine health insurance with tax-free savings for health costs. You buy qualified high-deductible health insurance (an indemnity policy as described above). Once that's done, you can make tax-deductible contributions to an HSA. Some insurers offer you the insurance policy and the HSA, along with savings options. You also may find a bank or other trustee to open your HSA. According to *www.hsainsider.com* (a nonprofit organization that promotes health care reform), the two largest HSA trustees are HSA Bank (*www.hsabank.com*) and First HSA (*www.firsthsa.com*).

The policy must have a deductible of a least $1,000 for individual coverage, and $2,000 for families. You won't have to pay anything further once you have spent no more than $10,000 (less with some policies) in any one year. Your contribution to the HSA in any given year can be as large as the deductible on your health insurance. With a $1,000 deductible, for example, you can put as much as $1,000 per year into an HSA. The maximum HSA contribution for 2005 is $2,650 for individuals, or $5,250 for those with families-even if your deductible is higher. These numbers will increase with inflation in future years.

If you purchase the required insurance as an individual, rather than through a group, the HSA contribution is an above-the-line tax deduction. You can write it off even if you don't itemize.

HSA withdrawals that are used to pay qualified medical bills are tax free. There are no restrictions on your choice of doctors or hospitals. Money you don't spend right away can stay in the HSA, enjoying tax-deferred growth. You may build up a fund you can use for future health care needs. At age 65, the balance in the HSA account also may be used to supplement retirement income (subject to income taxes). The premiums on a high-deductible policy are relatively low, so they might not increase as much each year as do traditional health insurance costs. As a result, an HSA may help you control cost increases in future years.

Because the HSA is new, few institutions in Texas, including Raymond James & Associates, have created the type of account to accommodate this concept. It is only a matter of time, in our opinion, before most financial institutions will have such an account.

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*Editor's Note: This article is part of a series, "The Rising Cost of Health Care … What to do pre- and post-retirement." Look for related articles in future issues.* ■

*"The Rise of China"*
*continued from page 1*

industrialization of other major economies during the last century, including Japan. However, despite its one-party Communist regime, China (a member of the WTO), is more open to foreign investment than either Japan or Korea were at similar stages in their development, according to Commonwealth Securities Analyst David Thurtell.

Adding to China's impact on global growth, the world's urban population is growing by 60 million each year – somewhat equivalent to building a new Paris or Beijing every two months, according to Alcoa Australia Managing Director Wayne Osborn, who continues, "What's clear is that we're in the midst of a global market transformation and growth not seen since the 1950s ... this makes for once-in-a-generation opportunities."

The awakening economic dragon's voracious appetite for raw materials to fuel its rapid industrialization has returned commodity prices to levels not seen in years. Nickel is at a 15 year high, copper and tin at eight and a half year highs, silver has not been so expensive for 16 years, and aluminum is at a six and a half year peak.

Underpinning all this was a surge in Chinese consumption, which accounted for 40-50 percent of demand growth for some commodities and caught most commodity analysts short, says Thurtell.

China's economy grew by around 9.5 percent in 2004, despite government curbs on investment and credit aimed at reining it into more sustainable levels. Beijing will again apply the brakes this year to meet a gross domestic product (GDP) growth target of around 7-9 percent, according to Australia China Trade Pty Ltd director Juyan Feng. It is a prospect the head of the world's second largest diversified mining company, Leigh Clifford, chief executive of Rio Tinto Ltd Chief Executive, described as a welcome development for commodity markets – already stretched to meet demand.

U.S. Foreign Affairs Council member and China Expert Nicholas Lardy, speaking as a guest in the third "Wide Angle" meeting organized by Is Yatirim Stocks and Shares, says that China's high growth rate has reached peak levels. According to Lardy, though, the growth would slow down in the following years. In the long term, China's economy will continue its 8 or 9 percent growth trend for the next 10 or 15 years. Lardy indicated the reasons for this growth rate include the high proportion of savings from national incomes, the ability to invest these savings and the success of directly attracting investors.

The American expert explained the contribution of the population of 1.3 billion to the labor force and economy, saying, "While the share of agricultural workers in the labor force is rapidly reducing, the shares of industry and services are increasing. About 150-200 million people (out of 350 million in the agricultural sector) are expected to switch to industry and service sectors in the future 10 years." China's share of world trade was .5 percent in 1970s and has now reached 7 percent. China's contribution to the growth of world economy was about three times bigger than that of the United States between 2001 and 2004.

China was the world's second largest consumer of petroleum products in 2003, surpassing Japan for the first time, with total demand of 5.56 million barrels per day (bbl/d) – see Figure 1. China's oil demand is projected by the Energy Information Agency to reach 12.8 million barrels a day by 2025, with net imports of 9.4 million barrels a day. As the source of around 40 percent of world oil demand growth over the past four years, Chinese oil demand already is a very significant factor in world oil markets.

Understanding the growth and history of China is important, but understanding the concerns for the future is equally important. Here is a story released by Bloomberg on March 28, 2005.

*"China's economy is not slowing down, contrary to government assertions reported by the conventional media, and the PRC's real inflation rate is probably twice that reported by official data. Those were among the many conclusions reached in the China Watch 2005 Annual Country Forecast, published by Orbis Publications, LLC, www.orbischina.com.*

*The report's editor, Dr. Derek Scissors, estimates consumer inflation hit 7 percent in 2004, nearly twice the officially reported rate of 3.9 percent. As for the economy's rate of growth, the report concludes that the government has rigged the data to portray a slowing economy – in no small part to reassure foreign investors, falsely, that its economy is not spinning out of control.*

*"I wouldn't even call it fuzzy math. It's 'China math,' where the rules of addition and division don't apply," says Scissors, referring to official government economic data. Perhaps most worrisome is the continuing surge in investment spending, which now accounts for a staggering 51 percent of GDP.*

*"Multinationals need a true picture of what's going on in the Chinese economy, and official data doesn't give them that," says Orbis Publisher Stephen Foster. "The report makes clear that state-driven, investment-led growth has continued unabated. The rosy view is that the economy is moving inexorably toward greater and greater market orientation; in fact, just the opposite is occurring."*

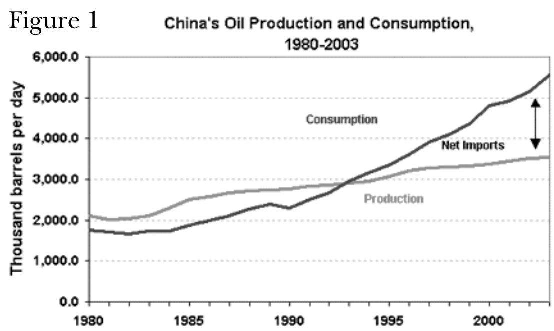
*The report forecasts that government data will show 8.8 percent GDP growth in 2005, but notes the reality behind those numbers will be different and, in most cases, more perilous. "We outline the possible outcomes; some of them are what executives hope for but others are not pleasant," says Foster.*

Three months into 2005, China has little to show for efforts in 2004 to avoid a hard landing by its economy. The picture from the most overarching statistic, the GDP shows little headway in China's efforts to slow the pace of growth. After growing about 10 percent in real terms last year, the authorities in Beijing set a goal of 7 percent real growth for this year, still fast by most standards, but slower than China had grown. The most recent GDP statistics, however, still show growth of just under 10 percent in real terms — hardly much change.

Similarly, the value added by Chinese industry, a statistic close to the U.S. industrial production measure, has hardly slowed at all. The latest figures available show some 28 percent growth compared with a year ago. Though that figure is down from growth rates of 35-50 percent earlier in 2004, it is pretty much in line with the pace of growth in 2003. The pace has slowed, yes, but it is still far from official Chinese goals.

That's not the party line in Beijing. On March 14, Premier Wen Jiabao said investment and lending curbs had "worked to solve prominent problems threatening steady and rapid economic development."

Figure 1

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*"The Rise of China" continued from page 5*

While Wen hedged, saying China "mustn't slacken" inflation-cooling policies, it's a far cry from a year ago, when he warned of "overheating."

Signs of rapid growth abound. Exports jumped 37 percent in the first two months of the year, while industrial production increased 17 percent and retail sales gained 14 percent. In the first two months of 2005, investment in China's factories, roads and other fixed assets in urban areas rose 24.5 percent.

Even more important, and trickier than the goal of slowing the overall pace of growth, is Beijing's effort to change the economy's mix. The Chinese authorities have long recognized that the country was altogether too oriented toward capital spending, especially huge projects, and too little oriented toward smaller, more market-sensitive projects and consumer spending. This unfortunate mix had brought on a dangerous, skewed distribution of income that threatened social unrest. Though heavy capital spending is a hallmark of a developing economy, the authorities in Beijing realized that China required a more balanced growth picture to sustain the country's overall development for the long run. On this score, the evidence is decidedly mixed, but it does include some encouraging signs of progress.

The slowdown in the pace of domestic credit expansion is a critical and welcome piece of this picture. Most domestic credit in China goes to the inefficient and largely unprofitable state-owned enterprises. Only about 10 percent goes to households, individuals and small business. This slowdown speaks clearly to a movement away from this vestige of China's communist past, and toward a more efficient and economically dynamic expansion – one that responds more to market signals than to the political connections of these economic dinosaurs.

Another potential threat, the rapid growth in China is creating inflationary pressure. To be sure, consumer price inflation in China has slowed of late, from about a 5.5 percent annual rate of advance earlier in 2004 to about a 3 percent annual rate more recently. This is largely due to an exceptionally good harvest and a subsequent decline in food prices. Though welcome on one level, Beijing is frustrated because lower food prices thwart its efforts to raise income growth outside its coastal cities, especially in the countryside, where the risk of social unrest is greatest. Equally worrisome to the Chinese authorities, industrial prices are rising at an 8 percent annual rate, up from earlier in 2004 and in 2003. In another inflationary sign, anecdotal evidence suggests that Chinese industry, both foreign-controlled and domestic, seems more willing to bid up the wages of skilled labor than to train the unskilled labor pouring out of the agricultural sector.

Although a pronounced slowdown in money growth offers a hopeful sign to counterbalance these concerns on the inflation front, China still lacks sufficient control to create genuine optimism about this critical inflationary consideration.

*Even the purely domestic U.S. investor should care about the outlook for China. Along with the United States, China is the only other major engine of economic growth in the world today. If China falters, growth prospects the world over may dim, including here in the United States.*

Despite all these changes, China continues to hold its currency peg to the U.S. dollar. In this coming year, Beijing will undoubtedly come under intense pressure to end this rigid peg. WTO rules call for a liberalization of China's financial markets in 2005. Meanwhile, other nations should join the United States in pressuring Beijing to revalue its currency, the Yuan, upward. Until recently, China ran a surplus only with the United States. Overall, Chinese trade about balanced with the world, leaving the United States alone to pressure Beijing on this adjustment. But with the recent slowdown in imports, China's overall trade balance has swung widely into surplus to an equivalent of $10 billion. Now that other nations have begun to feel the pinch of China trade, they should join the United States and the WTO in pressuring Beijing. China may well have to abandon its rigid dollar peg sometime in 2005. Even so, it will not allow the Yuan to float freely. Using cheap currency to promote exports is too much a part of China's basic growth model for Beijing to abandon it all at once. Even if China gets rid of the rigid dollar peg, the Peoples Bank will doubtless manage the Yuan to keep it cheap relative to other currencies, especially the dollar.

Whatever China's specific currency policy, however, inflationary pressure is gradually eroding that country's competitive advantage, at least at the margin. It is clear from the inflation statistics quoted earlier that Chinese prices are rising faster than American, European and Japanese prices. Even at steady exchange rates, and much less if China accedes to a managed upward float, this heightened Chinese inflation will raise the relative price of its exports and gradually, at the margin, begin to erode China's still huge price advantage in trade.

Even the purely domestic U.S. investor should care about the outlook for China. Along with the United States, China is the only other major engine of economic growth in the world today. If China falters, growth prospects the world over may dim, including here in the United States. So, it is critical that Beijing succeed in its efforts to ensure a durable expansion, in part by slowing the economy enough to avoid overheating and also by balancing the elements of that economy's growth, especially between investment spending and consumption. The risk at the moment is that the adjustments will become too difficult for the economy to accommodate and lead to what is popularly called a "hard landing," with all its unwelcome, growth-impeding ripples in Asia, Europe and here as well.

Investors, whether domestic U.S. or global, would surely feel more confident if China were making more demonstrable progress in subduing its overheating economy and, more importantly, reorienting the emphasis of its growth mix. There is some comfort, of course, in the mix of statistics, enough surely to proceed the assumption that the economy will avoid a runaway situation, on the one hand, or a "hard landing," as the expression goes, on the other. But circumstances are far from conclusive. China remains as much of a risk as a promise.

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*Sources:*
*Lord, Abbett & Co. LLC -Milton Ezrati, Senior Economic Strategist*
*EIA-Energy Information Administration*
*Orbis Publications*
*Bloomberg News-March 14 wire*

# CHARITY DAY

## IMPROVING OUR COMMUNITY

On March 22, the entire CFM/CAS office participated in Charity Day with Habitat for Humanity by assisting in preparing materials for the building of homes, such as building the frames for walls and reconstructing onsite storage facilities. A great deal of grit, strain and sweat was expended throughout all phases of construction, and when the day was over, all employees marveled at their accomplishments, knowing a very needy family would live and benefit from this work.

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## 2005 CALENDAR OF EVENTS

**June 7** — Emerging Investors Seminar

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**RJFS Deadlines**

**Cutoffs:**

| | |
|---|---|
| **Trades/Mutual Funds** | **3:00 CST** |
| **No Load Mutual Funds ......Buys:** | **1:00 CST** |
| **No Load Mutual Funds ......Sells:** | **2:30 CST** |
| **Nuveen Munis** | **10:00 CST** |
| **Government Bonds** | **4:00 CST** |
| **Wires-From Customer Accts.** | **12:30 CST** |

## CFM MISSION STATEMENT:

Our mission is to become our client's trusted advisor by providing superior financial planning services that enable our clients to define and achieve their financial and life goals.