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Real Estate Investment

The Baby Boom Bomb
and
How It Will Affect Your Retirement

- **Will your retirement account be worth what you expect it to be worth by the time you retire?**
- **Will it even be worth as much as it is today?**
- **How will demographic facts-of-life determine this?**
- **What can you do to protect your family's retirement plans?**

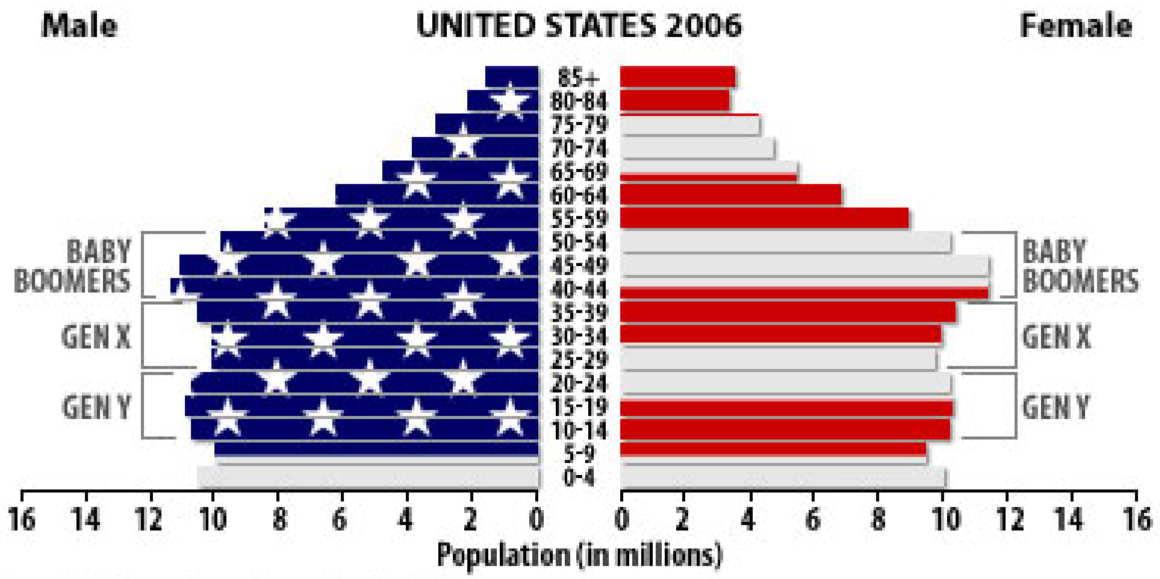
A question has been troubling me for some time and, although I searched government publications, read financial newsletters and publications, "Googled" for answers, and asked professional investment advisors and accountants, I could not get a satisfactory answer.

The question seems like a simple one and available statistics, properly compiled, would almost surely provide the answer. Yet, I found nothing.

Here is my question: If the Social Security crisis is predicated on the diminishing number of workers (Generation X'ers) available to fund the payments for a swelling number of retirees (Baby Boomers), why wouldn't those same demographic facts apply to the securities industry, in other words, stocks, bonds, mutual funds, etc.? In short, who is going to buy all of these stocks, bonds and mutual funds that we Baby Boomers are going to need to sell to fund our retirements? If the age cohort that must do this is smaller and has more demands on their funds than we do, how can they pay us prices for our securities reflecting what we think is the value of our portfolios? Doesn't diminished demand usually indicate falling prices? If so, will our seven figure retirement account still be worth seven figures by the time we retire? I don't know the answer but, I am curious and I think that you should be curious too.

Finally, on November 9th, 2006, **STRATFOR**, a private intelligence company based in Austin, Texas issued their "***Global Market Brief" titled "A Look Ahead – The Next Big One".*** I have excerpted the portions of this report relevant to how the demographics of the U.S. might affect the retirement prospects for the Baby Boom generation (emphasis is mine).

This chart gives you an idea of our population distribution in the U.S.



Source: U.S. Census Bureau, International Data Base.

“From a financial viewpoint, people fall into three categories. First are the young workers who are buying homes and raising children. Aside from those lucky enough to have an income that allows it all to be done with cold hard cash, these people have to borrow. They need to get a mortgage, maybe even a second one when it is time to think about college for the kids. Living from paycheck to paycheck -- or credit card statement to credit card statement -- is a way of life. Young workers consume credit, and lots of it.

Second are the mature workers. The mortgage is paid off and their house moves from their debt sheet to their asset list. The kids are moved out and through college. Such workers' debts are paid off and they are preparing for retirement. Money that once went to the children or the mortgage or to interest payments on credit cards now goes into a variety of savings and investments. These mature workers generate the credit the young workers consume.

Finally, there are the retirees who live off of their savings and who want no surprises. They move the vast majority of their investments from the adrenaline-provoking roller coasters that are the stock and private bond markets, and into the sedate world of government Treasury bills. With every year their nest egg shrinks a little bit.

It is this demographic balance that is shifting.

In the United States the baby boomers are the mature worker generation. They are the largest population cohort that the United States has ever produced (as measured by their percentage of the total population). Beginning in the early 1990s their kids started leaving college, and as of 2006 nearly all of their kids have moved on to their own lives. Some of the older baby boomers are already starting to take early retirement, but the bulk of them will not leave the work force until after 2012. It is the baby boomers who have supplied the bulk of the working capital for the United States for the past 15 years. Their investments -- well out of proportion to what any generation before them has ever been able to provide -- caused the low interest rate environment of the 1990s and 2000s, and single-handedly funded the most expensive and revolutionary transformation the U.S. economy has ever experienced: the computer revolution.

When the baby boomers retire en masse, that surge of capital will simply go away, being poured into government bonds. Replacing them in their role as the country's financiers will be Generation X, the children of today's newest crop of retirees, the war babies. And unlike the baby boomers, there are very few members of Generation X. In fact, they are the smallest population cohort that the country has ever produced (again, as measured by their percentage of the total population). ***Collectively Generation X cannot hope to hold a candle to the amount of money the baby boomers have proven able to sock away these past 15 years.***
Consuming this reduced pool of credit will be another large population cohort, the baby boomers' kids: Generation Y. Often called the echo boomers, Generation Y is nearly as large a population cohort as their parents. And they are about to need loads of credit for their own kids, cars and homes.

Replace the baby boomers with the numerically smaller Xers and add in the demands of the numerically larger Yers, and the United States faces an inversion of the credit environment. Instead of a large generation supplying credit to a small generation, soon a small generation will be supplying credit to a large one.

Getting By With Less

A reduced supply of capital and credit has two implications. First and most obvious, the cost of financing the purchase of anything -- whether a group of aircraft carriers or a staple gun -- will go up. Fewer people and governments will be able to afford the payments that go along with higher interest costs, leading to reduced consumption and slower growth across all sectors and economies. **All in all this is horrible news for anyone who is not one of the Generation Xers, who will be able to demand top dollar for their scarce investment dollars.**

Second, a smaller pool of anything -- credit, in this instance -- results in a smaller margin for error. Economists have a fancy bit of jargon they use to describe this: volatility. Supply crunches are rare occurrences in well- or over-supplied markets. **Lower availability means not only lower growth, but that the swings between booms and busts will be far more rapid and disruptive."**

---end of STRATFOR excerpt---

This is the scenario that I had suspected based on the demographic profile of the U.S. While it may sound ominous, the good news (if you can call it that) is that the U.S. is in the best demographic condition of any of the industrialized nations. The down-side of that is that we probably won't be able to look to Japan, Europe or China to provide us with the flood of cheap capital that we have enjoyed over recent years.

So what am I getting at with all of this?

My premise is simple. I am uncomfortable with the anticipation of a constantly rising stock market. These demographics simply do not support such an assumption. With fewer people, who have a large number of financial obligations in relation to their numbers, to buy the enormous securities holdings of the Baby Boom generation at current or higher prices just doesn't seem possible to me. If this is true, we could see a long-term market decline beginning around 2012 when the Baby Boomers begin to leave the workforce *en masse* and begin withdrawing from rather than contributing to the capital structure of the markets.

So, what is my solution?

I believe in fundamentals. One of the fundamentals that seems appropriate to this situation would be diversification from the standard retirement account fare of stocks, bonds, and mutual funds.

Fortunately, the regulations regarding retirement accounts have been trending in this direction as well. It is now possible to use retirement account funds to purchase "non-traditional investments" to be held in your qualified retirement account. I believe that the investment most likely to preserve value and provide a secure retirement income stream is high quality real estate.

I have emphasized "net leased" real estate leased, on a long-term basis, to America's best companies (those rated "investment grade" by the credit rating agencies such as S&P, Moody's and Fitch) for over 30 years. These properties are trouble free, provide a secure income stream and tend to be in high quality locations. My location preference is in certain Sun Belt locations – primarily the four Texas metropolitan areas.

I have developed methods for individuals and groups to invest in this type of property using funds currently in their retirement accounts. I believe that this can provide a diversification that could cushion the shock of a prolonged decline in securities prices.

I would enjoy the opportunity to discuss these programs with you if you are interested in preserving the money that you have saved for your retirement from the effects of the demographic shift that is coming.

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About Joe:

I founded Joseph E. Kean Company in 1976 to provide superior service in the brokerage of investment real estate. Since that time, I have served a clientele that includes individuals and corporations in North and Central America, Europe, Asia, and the Middle East.

In the 31 years since I founded the company, a set of core values has evolved that assures you of personalized, quality service, excellent investment alternatives and complete confidentiality. The approach used is patterned after that of private banking concerns. Each client's experience will be tailored to their need and preferred mode of conducting business. You never have to compromise your standards when dealing with Joseph E. Kean Company.