ANALYSING THE PROBLEM

<u>Will Rogers</u> *"Don't gamble; take all your savings and buy some good stock and hold it until it goes up; then sell it. If it don't go up, don't buy it."*

<u>Woody Allen</u> *"A stockbroker is somebody who invests your money until it's gone."*

<u>Willie Sutton</u> *"I rob banks 'cause that's where the money is."*

One day in April is usually designated as, was Financial Literacy Day. Imagine that, our Federal Government dedicates an <u>entire</u> day for a nation experiencing the highest debt ratio and lowest saving rate since 1933. A few years ago, I celebrated by speaking with Chip Roame of Tiburon, the financial think tank, Nick Murray, noted guru to financial advisors and Len Reinhart, managed account industry pioneer. Their conclusions were sobering and of a single mind. We've got big problems. The comments which follow are taken largely from their collective brains, and follow the two themes we started with:
Retiring Americans are in trouble, and Financial Advisors must retool their business to help us. Not stopping there, we want to give you some platitudes-- do's and don't's to help us get better prepared to meet the crisis head-on. We conclude with an industry sobering analogy by the renowned financial pundit, Warren Buffet from his celebrated annual Shareholder letter.

2005 witnessed a negative savings rate (-0.5%) for the first time since the Great Depression. (About the Great Depression—ask your parents who may remember what their grandparents had to say about it.). The declining of our savings rate has continued through 2010.

More than 10 million Americans do not use insured banks (see "Great Depression"). When hundreds of banks failed because of the credit debacle of 2008, Americans lost millions. More than 75 million Americans are "credit challenged" (i.e. ass over heels in debt) and 37% of American workers aren't saving for retirement (see our newest course,"The Demise of Social Security" coming in 2020.)

The *average* American has 5.3% of their annual income in investible assets, but don't be misled by average. Averages are skewed by those at the higher end. The *median* American household has $2500 saved, but is $8,000 in debt. That is to say if there are 200 million households in the U.S., 100 million have less than $2500 in investible assets. And, they have more debt than assets. 14% of Americans are living below poverty levels (making less than $22,050 per year per family of 4. The average evil credit card debt of a cardholder is more than $5100. 12% of the wealth in our country is controlled by .035% of the population. Not good numbers.

But, the endemic problem goes much deeper than these superficial statistics. It is in the area of "good news" that financial catastrophes are germinating. As we said, the good news is that Americans have a high likelihood of living longer. The "bad news" is that they will not have any money to sustain themselves.

The London Center for Longevity Studies announced that the first person to live to 1000 has already been born. The expected lifespan of an average 30 year old TODAY is 120. In 2006, the average retirement age of a couple was 62 years. Today, most can't afford to retire at 62. They can't take the financial haircut. The average age of the second to die of a married couple is 92! Most Boomers will reach 85 years of age or more.

When Social Security was instituted in 1935 the prevailing thought was that retirees would live for a few, or maybe 10 years after retirement. Today's retirees face 30 years and we have simply not been taught to think in terms of a 20 or 30-year retirement. At 3% inflation, in 30 years, we'll need $2.45 for every $1.00 we need in 2010. The risk of dying too young has been replaced by the risk of living too long.

The soon to retire have no idea of the magnitude of their financial shortfall. They can't imagine being 92 or how they get there. As a response to the lifestyle challenge, some 50 colleges so far have established (or are establishing) communities spanning homes to hospice. Basically they are "Retire to Die" communities. Today they cost $200,000 to $600,000 to enter, plus $1500 to $4000 per month. The average Social Security payment today is only $1100. In 2036, those retiree to die communities may cost $1.5 million and $10,000 per month. There's no chance! Today's worker can forget about leaving a legacy to their kids or favorite charity. They <u>will</u> need to go back to work and stay there until they die.

What about Boomers?

The so-called boomer generation (born 1946-1964) has been called by the financial services community as the greatest opportunity to capture wealth in transition in many lifetimes. But it's not a return to the 90's for financial advisors.

True, Boomers face a pending liquification of stupendous magnitude, but, they desperately need the money, even if they don't realize it right now. Fit the Boomer into the longevity data and you'll see that most face the prospect of running out of money before they die.

Touted as a good thing, through 401(k), 403(B) and other defined contribution plans, Boomers are more in control of their own retirement funding than ever before. Unlike their parents and grandparents, who worked for single companies until they retired, Boomers' pension creation and lifestyle management is in their *own* hands. Unfortunately, unlike their parents and grandparents had defined benefit pension plans which paid benefits throughout retirement, Boomers will want and need income continuation, principal growth and a legacy plan. Unfortunately for these Boomers, there is <u>no such</u> investment solution.

50 year olds think differently from 60 year olds. They still believe in miracles and look to single stocks or stockbrokers to make them happen. 60 year olds are starting to frantically search for financial advisors to help them answer, "Will it last?" The upbeat ads which feature retiring

Americans buying sailboats, beachhouses and businesses cause Boomers to smile and nod. But, the underlying message of the ads is a grave one. Without a PLAN that was started years ago, forget it.

Tiburon Associates reports that there is $17 trillion in investible assets in Americans' hands. $17,000,000,000,000. That's BIG—as in Douglas Adams' "Space is big" ("Space is Big, Really Really Big, so Big in fact . . .")

In 30 years, investible assets goes to $40 trillion, plus. What's more, there is today another $35 trillion in retirement plans, personal (i.e. homes) and other (i.e. business) assets that will be moving to investible assets in the next 15 years. After factoring in debt, you have more than represents a $40 trillion net worth. It's not difficult to understand why the financial community could get excited. More than $200 billion in IRA assets roll over each year.

Yet, the wake up call is that <u>75% of Boomers have less than $100,000 in investible assets.</u> (Think of the very high end skewing the average again.) 80% of U.S. households do not have a financial advisor. They consult an investment professional (if they can afford one) only because a major life event (such as retirement) is looming. By then, it's often too late.

Restatement of the Problem

So, what we have, so far, is a relatively unsophisticated investing populace (and often a financially illiterate one) with limited funds facing an extended lifetime of increased expenses looking for help. And these are considered the "haves" in our "have and have not" society.