Special Report One:

Thinking Like A Buyer When The Boomers Are Selling

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The-Great-Retirement-Experiment.com

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One Page Summary: Thinking Like A Buyer When The Boomers Are Selling

Every seller needs a buyer, and 50 million Boomers cashing out a planned $44 trillion in paper wealth will need a lot of very motivated buyers. In the pages that follow we will seek to understand the perspectives of those buyers – the generations following the Boomers – during the decades when more Boomers are selling more investments than any generation before them. Even as the Boomers reduce consumer spending, and make staggering financial demands for the payment of Social Security and Medicare benefits. Could it be that what matters is not so much these individual experiments (for all are unprecedented), but how they will all combine and interact?

This **holistic perspective** is not the usual way that we look at long-term investments. Indeed, we invest so that we won't have to personally reduce our spending when Social Security and Medicare experience their widely expected problems in the decades to come. However, when we take the **people-based perspective** of evaluating investments based not upon mathematical equations from history, but upon the situation and motivations of the buyers when they are buying, then everything changes.

For these future buyers will be living in a single world, where they will be simultaneously paying for all of the promises that Baby Boom generation has made to itself. Or so the Boomers plan.

Did you ever stop to wonder just how tens of millions of bright, creative individuals at the peaks of their careers will react to these unprecedented demands? What their self-interests will be? What actions the younger generations will take to keep more of the real goods and services they are creating, instead of obediently and passively passing them over to retirees? How smart investors will price markets dominated by many millions of retirees trying to cash out tens of trillions of dollars of investments, with no end to the selling in sight for decades?

The over 50 pages that follow will present a fresh and out-of-the-box exploration of the investment implications of the retirement of the Baby Boom, using the people-based fundamentals of finance and economics. We are going to take a walk in the shoes of the buyers, when they are buying – and maybe along the way, start to change the way you think about long term investing.

Your guide for this walk into the future is a Chartered Financial Analyst, MBA and former investment banker, with over 20 years of financial experience. He is a futurist, consultant, speaker, and author, with previous investment book publications by major publishers.

Preface

Welcome to The Great Retirement Experiment! A place where you will find a holistic and people-based look ahead to the future where we will all be living. This E-pamphlet is being provided free of cost for your use – but with one simple request. If you find the information and perspectives presented herein to be valuable, to be thought provoking and worth considering – **then please pass it on!** There will be lot more information and out-of-the-box perspectives to come, for this is only the first in a series of pamphlets that are designed to challenge the status quo, change perceptions – and get a dialogue going.

Some of what you have already read may sound a bit on the bleak side, and it may seem bleaker as we go. As discussed in the "Pessimism" section, there are well-known authors who predict that some of the individual Experiments by themselves are so powerful that a market and/or economic collapse is near inevitable. However, there is room for optimism as well and here we will take the position that the economy won't collapse – because it would be against the interests of too many millions of brilliant, talented and hard working people to let that happen. Just as it will also be against the interests of those same younger generations to obediently hand real wealth over to 50 million retired Boomer investors by the wheelbarrow full, on the schedule planned by their elders. To access the wealth of the future – we will need to help the wealth creators.

This pamphlet is packed with powerful new concepts, and fresh perspectives on the retirement of the Boomers. To keep it manageable for the average reader, we go light on the numbers and

footnotes. If you want numbers, methodologies and footnotes, there are 50 pages of them in the complementary second pamphlet, "Adding Up $44 Trillion Of Boomer Wealth Expectations".

A HOLISTIC LOOK AT THE EXPERIMENTS

Fifty million Baby Boom investors and pensioners are headed towards retirement, and an enormous amount of effort has been put into understanding their future wants and needs. On an individual level, many millions of mathematical analyses have been run, using financial planning software, to determine how much money each Boomer will need during retirement, to pay for their personal wants and needs. That is usually as far as it goes – but what happens when we put all those Boomers together? There are a lot of Boomers, each of whom wants a lot – and, taken together, they want far more money for their retirement investments than any generation before them.

Indeed, as shown in the 2nd e-pamphlet, when we take the unusual and holistic step of adding up these individual expectations, using fairly common assumptions, it looks like the Boomers might collectively be planning on receiving around $44 trillion or so to help pay for their retirements. Good plan – but will the buyers of the future be willing to come up with the real goods and services to cash out that $44 trillion? (Those buyers are you if you were born after 1964, or even if you are one of the younger Boomers.)

To start our walk, and think like a buyer when the Boomers are selling, we are going to have to visit a holistic future. We're not going to take the traditional financial planning approach of assuming that long-term

investments occupy an isolated mathematical universe, where we can know the future by simply extracting selected mathematical equations from the past and applying the results (long term average rates of return) to the future. That traditional approach is fine if we are solely focused on our personal wants and needs, and are confident we will be able to spend the cash from that isolated mathematical universe. However, when we allow the buyers of our investments to have their own wants and needs, and we want their cash in our own universe, then it may be wise to consider investment returns within the context of the profoundly changed world in which our buyers will live. We're going to say that:

- **When tens of millions of Boomers switch from buying to selling – that does change investment prices and returns**
- **When the income falls for a huge generation of heavy spending consumers as they retire – that does change consumer spending and corporate profits**
- **When vast sums of money are spent on funding Social Security & Medicare – that does mean less money is available for investing and consuming**
- **The problem isn't so much any one of those alone, as it is all of those put together and happening simultaneously**

Sound like common sense? Then you just may be out of the investment mainstream. For to admit that any of these fast

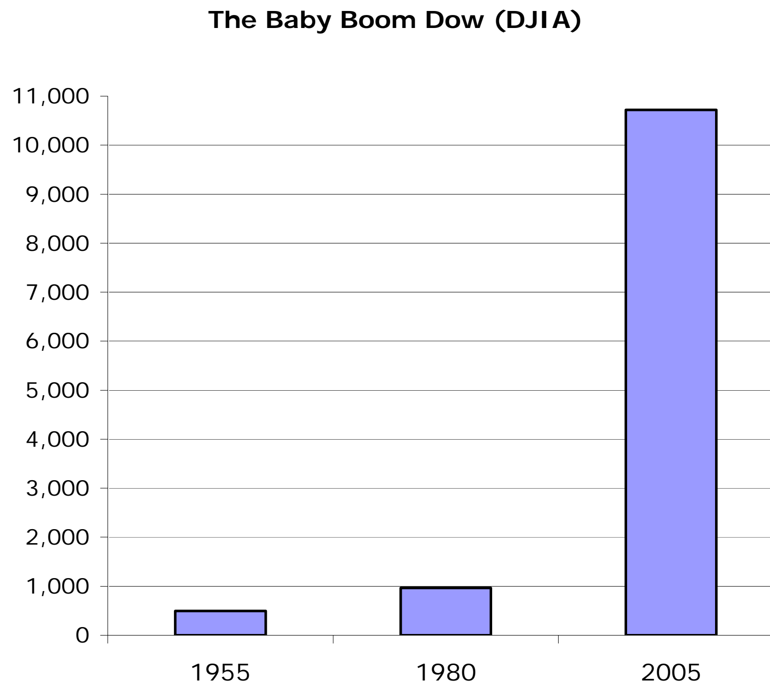
approaching major demographic, market and economic Experiments could actually affect investment returns – and the types of investments you should buy – currently borders on financial heresy when it comes to conventional long term financial planning for retirement.

In the following sections we will be going into more detail on each of the Experiments, and then putting them all together. If you are a Boomer, you may run across some phrasings and perspectives that you don't care for, and may even find a bit offensive. Don't be offended. The author was born in 1959 and is very much a Boomer, as are many of his family and friends. This series of pamphlets and books are being written with the objective of helping Boomers to enjoy the most prosperous years they can when they are of retirement age. Unfortunately, what we see as the just rewards of a lifetime of work and the prudent investment of our savings according to the conventional wisdom – may be viewed quite differently by the people who will be cashing out the sum of all of our individually reasonable and understandable expectations. To realistically prepare for the future we must seek to understand their viewpoints, uncomfortable as that can be at times.

The Boomer Bust Experiment

The Baby Boom, those Americans born between 1946 and 1964, are the most numerous generation of the wealthiest nation in the history of the world. The combination of a rapidly growing population, growing wealth per person, a proliferation of employees with pensions, an array of retirement accounts that rewarded putting money into the

markets (but penalized taking it out), and widely publicized theories that long-term investing in the stock market was a "free lunch" with both guaranteed low risk and high returns, all came together to pour cash into the markets, year after year. As the Boomers reached their peak earning years, more people put more money into the investment markets than had ever happened before – and the markets responded.



In other words, the Boomers are a perfect illustration of the principle that financial markets perform well when the money is coming in. When more people are buying than selling, then investment prices and rates of return each rise. On the other hand, markets tend to respond quite poorly when too many people take money out, and sellers outnumber buyers. Which then raises the question:

What does happen when 50 million Baby Boomers try to cash out the $44 trillion they anticipate owning through their IRAs, 401(k)s, and pension plans?

Can we really do that? Pull tens of trillions of dollars of paper wealth out of the markets and convert it into decades of real consumption for tens of millions of people, without changing the markets or the economy in the process? Finding out the answer over the next 40 years will be an Experiment on an unprecedented scale -- for nothing like this has ever happened before in history.

As covered in Fortune (6/19/06) and Business Week (4/27/06), "Boomer Bust" is a relatively new phrase used to describe the above question and related investor fears. It is an easy to understand question that could be characterized as simple common sense. But despite the recent bit of media coverage, it is not asked – or answered -- all that often for such a basic and important question, that affects so many people.

When an investor does raise this question, the usual answer is: "Don't worry, we have many decades of investment history to reassure us about what the returns on your retirement portfolio will be." Quite a convincing answer too, at least until another simple question is asked:

If nothing like this has ever happened before in history – can we rely on history for our only protection?

Keep in mind that we don't need an abrupt "meltdown" or another Black Friday in the markets for the situation to become bleak for individual investors. After all, maintaining the current value of your portfolio is hardly the idea behind long-term investing for retirement. The objective for IRAs, Keoghs – and pension plans – is for investments to, well, earn a return. To grow, and to not just grow, but to compound exponentially, so that much more money is available in the future than is invested today.

To illustrate, let us consider the example of Barry the Unusually Average Boomer, as shown in Schedule 2, at the end of this pamphlet (with much more detailed coverage of Barry and why these particular numbers were chosen in the 2nd e-pamphlet, here). Barry is 50 years old, has been saving for 15 years, has built a $132,728 portfolio in a retirement account, plans to continue investing until he retires at age 65, and then expects to draw down about $56,212 per year over a 17 year expected retirement lifespan. This is a quite unexceptional and simple example of a financial planning model, which is based on the assumption that Barry can earn a reasonable 8% per year.

Markets are a bit like balloons that are inflated with cash instead of air. To keep the paper wealth of a market swelling each year, more cash has to be going in than is coming out. Barry and 50 million fellow Boomers like him have been doing their bit, putting their cash into the markets every month for many years, through their retirement accounts, the investments made to fund their pensions – and most importantly, the 100% reinvestment of their account earnings. As shown in Schedule 2, even by now, if we assume 8% earnings that are 100% reinvested, then the reinvestment of Boomer earnings is already

putting twice as much annually into the markets as direct retirement investments. By the time Barry retires in 2021, if his quite common and unexceptional financial plan is working as expected, he is earning over $41,000 per year on his retirement investments, all of which goes straight back into buying more paper wealth, pumping the balloon up further.

As a reward for their responsible investing, when the Boomers retire they plan on drawing a lot more cash out than they put in, assuming that market balloon just keeps on inflating. For that to happen – more cash has to be coming in than going out. The Experiment that Barry and 50 million others will be attempting involves not only taking a lot of cash out, each and every year, but also simultaneously depending on the markets to continue to be reliably rising every year – for decades.

Which means not only does sufficient cash have to come in to cash their paper wealth out in full – $56,212 in goods and services per year for Barry the unusually average Boomer – but enough additional cash has to come in over and above that to keep that paper wealth balloon expanding. Multiply Barry times 50 million, make it year after year for decades, and the size of the Experiment becomes quite unprecedented.

(There is a more thorough discussion of the Boomer Bust experiment in Chapter Two, “What Happens When Everyone Sells?”, of Book One.)

If cash is the oxygen that markets need to climb – what happens to returns when the largest generation of investors in history gradually stops contributing, and starts pulling an unprecedented amount of cash out of the markets – every year, for decades, until 50 million have switched from buying to selling?

(In the little bit of public discussion of the Boomer Bust to date, a "straw man" argument has been set up that not all Baby Boomers are going to retire in the same year and then sell all of their assets in that year, so no "meltdown" to worry about. To say that Barry currently has "only" his current savings and he's not going to sell them all in one year, so no problem. Unfortunately – that's not the issue. The real Experiment will be whether Barry can abruptly switchover from being a major investment purchaser, to cashing out for $56,000+ per year in real goods and services for 17 straight years, with enough surplus cash still going into the markets beyond cashing him out to keep investment prices soaring ever upwards. Alongside 50 million other Boomers all pursuing the same strategy – albeit over a variety of starting years and a variety of investment portfolio sizes.)

The Consumer Spending Experiment

As impressive as the scale of the "Boomer Bust" Experiment is, it will not occur in isolation, nor will it even necessarily be the biggest of financial Experiments associated with the retirement of the Boomers. It is true that "only" about 50 million of the 77 million Boomers have retirement accounts or pensions. All of the 77 million excel at

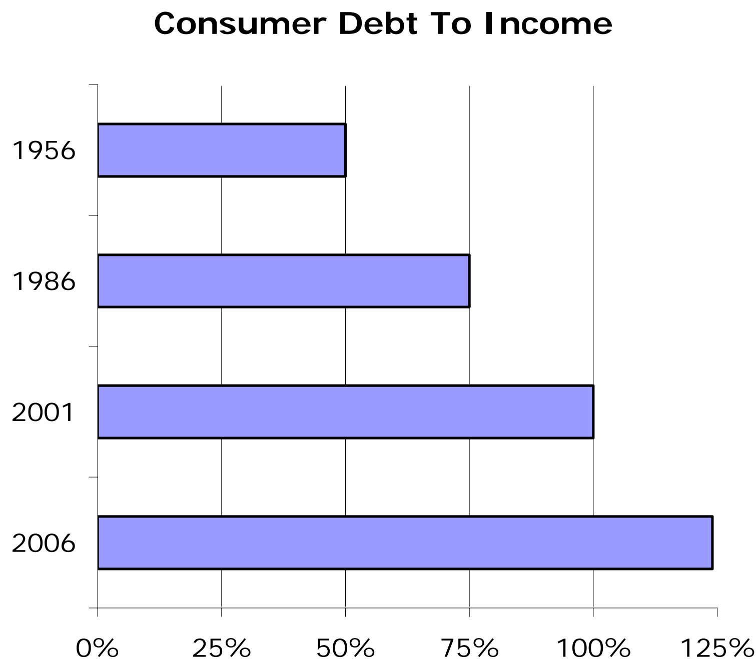
something else however – the Baby Boom collectively forms the greatest generation of consumer spenders the world has ever seen.

They need to be, for 70% of the US economy is consumer spending, and growth in that spending is the engine that drives the markets. If we buy a stock with an average dividend yield – less than 2% -- and hope to make 10% a year, then the cash dividends are only providing 20% of our expected yield. Where does the extra 80% of our expected yield come from? Corporate profit growth leading to stock price increases is the answer, and we are so confident that growth will occur, that 80% of the return we are expecting from that stock is from expectations of future profit growth. With the lion's share of those expectations being based upon assumptions of unending, exponentially compounded growth in consumer spending.

As the Baby Boom moved into the peak of its earning, consuming (and investing) years over the last couple of decades, these expectations of growth in consumer spending have been a pretty good bet. Yet, the Boomers are aging, and spending usually changes with age. The kids are gone, the salary is replaced with a pension, or maybe just Social Security, medical expenses often rise, the house is often downsized -- and spending predictably declines with the decline in income. Which raises an interesting question:

If stock market values are based on expectations of unending, exponentially compounded growth in consumer spending – what happens as year by year, more and more of the 77 million Baby Boomer consumers go on fixed incomes?

Making the situation even more challenging is that the American consumer hasn't been able to pay for all that spending with income, but is instead going into debt at an every increasing rate, as shown in the graph below. Even absent retirement, there are limits on the amount of debt that the average consumer can carry relative to income, that make it near impossible for the debt growth rate below to continue over the course of decades. Which means the consumer spending growth rate can't continue indefinitely either. When we do consider retirement however – what happens to corporate profit growth rates as tens of millions of consumers experience a drop in income even as they lose the ability to continue ratcheting up their debts?



Total Household Debt to Disposable Consumer Income

Source: Merrill Lynch (via The Dallas Morning News)

(There is a more detailed discussion of the consumer spending and market valuation Experiment in Chapter Five, "Three Siblings, Consumption & Markets", of Book One.)

The retirement related slowdown in consumer spending is going to be quite the major Experiment in its own right. However, it won't be occurring by itself, the Boomer Bust Experiment will be happening right alongside it. With a very active interaction between the two Experiments. The cashing out by the Boomers will be pulling away cash from the markets that won't be used to support growth in stock prices, while the consumer spending growth expectations used to support the valuation of stock prices will be simultaneously falling. What will happen to the planned unending exponentially compounded growth in stock prices when the two Experiments combine?

What happens when the money to buy stocks is falling even as consumer spending growth is simultaneously slowing – or even going negative?

This may sound a bit long term when we use the conventional perspective and look at buying securities today. If however, we should take the "radical" perspective of being more interested in the prices we can sell our investments at when we need the money, than the markets we invest in today, then this issue will be both crucial and unavoidable. For falling income reducing consumption is an age driven issue. Meaning the impact of the first wave of retiree Boomers reducing income and consumption will be hitting the markets at about

the same time as the impact of the first wave of retiree Boomers and Boomer pension plans selling investments. Then building every year afterwards, side by side – even as the number of simultaneous Experiments build.

The Social Security Experiment

Most of us are aware that if we add up everyone's expectations for Social Security and Medicare, and compare those to the resources likely to be available, we likely have a problem. Not enough to go around. All the self-serving political fantasies aside, Social Security will be in trouble because of the bedrock and unavoidable problem of a plummeting ratio of taxpayers to beneficiaries. According to projections by the Social Security Administration, by the time the youngest of the Baby Boomers are reaching age 65, in the year 2029, there will be only about two workers paying into Social Security for each beneficiary taking money out. A more fundamental way of phrasing this (that avoids the illusory trust fund) is two people producing goods and services for every one retiree depending on them.

This is going to be a major Experiment, and common sense says Social Security will be in trouble by then, likely deep trouble. Since Social Security, pension plans and investment markets will all exist in the same world – could problems in one area affect the others? If Social Security taxes approximately double, along with substantial other tax increases to repay the US Treasury Bonds that constitute the (imaginary) assets of the Social Security Trust Fund – won't there be

less money available to invest in the markets? Less money to cash Barry and the other Boomers out of the markets?

If Social Security benefits are reduced and delayed, as currently widely projected – won't there be less money available to support consumer spending? When we have tens of millions of people experience declining incomes as they move from employment to Social Security, and problems with Social Security then push their incomes down even further – is it possible that corporate growth rates will fall?

Are the markets immune from the problems with Social Security?

(There is a more complete discussion of long term Social Security funding in Chapter Four, "The Sham, The Fraud & The Contract", of Book One.)

The Health Care Experiment

The long-term costs of Social Security are a worry to economists, but it is the long-term costs of medical care that are downright scary. Current government estimates are that the annual costs of medical care will be rising to $4 trillion by 2015. That is just the beginning, for the older the Boomers get, the higher their expected medical costs per person. Much of this will initially be paid by private insurance, but with each passing year, more and more will be picked up by the taxpayers as more Boomers become eligible for Medicare. Which will likely leave the nation with a choice between raising taxes to still more

crushing levels (after having already paid for Social Security) – or reducing Medicare benefits.

Raising Medicare taxes means still less after-tax cash that new generations of investors will have available to buy out Boomer investments and avoid a Boomer bust. If it is benefits that fall instead of taxes rising, then portfolio sales by Boomer investors may need to rise in order to cover higher medical expenses, helping to cause a Boomer Bust from the other direction. If both happen, if taxes rise as benefits fall (the most likely solution), then cash demands by Boomer investors rise even as after-tax cash available for investment drops, creating a double squeeze on investment prices. Even as higher taxes and higher medical bills cause a double drop in the cash available for general consumer spending by both current workers and retired workers.

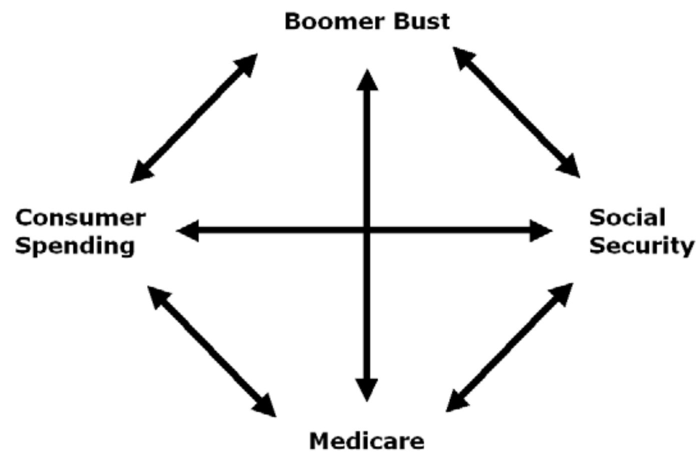
THE MEDICAL EXPERIMENT
An aging population with soaring medical expenses means:
Current workers will have less money to invest because of higher taxes & insurance premiums
Retirees will sell investments more rapidly to pay expenses
Current workers will have less money for current general consumer spending
Retirees will have less money for current general consumer spending

Combining The Experiments

The medical expense Experiment is going to be major in its own right. However, it won't be happening by itself – it will be happening right alongside the equally major Social Security Experiment.

The full tax expenses of both Experiments will combine to reduce the amount of money that both the workers and retirees will have available for non-medical consumer spending. If we assume that benefits are also eventually reduced for both programs, then we have four factors coming together to reduce the amount of money that will be available for consumer spending. So the reduction in consumer spending that we normally associate with retirement, will potentially be amplified by all four of those factors for the Boomers, powerfully increasing the negative effects of the Consumer Spending Experiment.

The potent combination of all three of those Experiments will then likely simultaneously reduce cash available for investment AND corporate profit growth expectations. Thereby strongly negatively impacting the fourth of our experiments, the Boomer Bust Experiment, as the Boomers collectively attempt the largest cashing out of the markets in history. With the financial viability of the nation's corporate and municipal pension systems as well as tens of millions of individual retiree financial plans all being dependent on everyone being able to steadily and seamlessly cash out at the highest prices in history, year after year.



The size of each one of these individual Experiments is unprecedented. The sum of the individual Experiments, the four part, interrelated combination of The Great Retirement Experiment, is unlike anything the financial markets have ever seen before. This raises the question:

How many "unprecedented" and "never happened before" does it take, before we stop relying on history as our only protection?"

Let's revisit the timing previously mentioned with regard to reductions in consumer spending. All four of the Experiment are age driven, with three of them being directly related to the average age of retirement. Problems with Social Security and the decline in consumer spending by the Boomers will be arriving at the very same time that the first Boomers begin simultaneously trying to cash out of the market in large numbers. At the time this may appear like Murphy's Law, the worst possible developments occurring at the worst possible time for investors, for Boomers trying to finally cash out the rewards they have

been working towards for decades. This timing should catch no one by surprise, however, for this conflict is entirely predictable today.

All three problems will then build each and every year, as more Boomers retire and try to cash out investments, whose valuation is based on expectations of unending spending growth – even as their disproportionately large generation is reducing spending. Even as earlier retirees continue to sell their own investments into the markets in a steady stream, and then growing further with the cumulative effect growing with each new year's crop of Boomer retirees. These future years of simultaneous investment sales and consumption declines don't have to have happened yet to knock down stock prices. All it takes is enough investors recognizing the issue, and the future problems will then be incorporated into present prices.

This is why it doesn't take selling all the Boomer investments in a year for a "meltdown" scenario to occur – it just takes the markets generally recognizing the problem. Which will then lead to a fall in current prices for every future year of expected problems, a process that can easily take place within a single year.

Medicare will be the Experiment that will work a little differently – and potentially be the most dangerous. Given current trends in health care costs, paying for Medicare will already be having a substantial effect on increasing taxes and reducing consumer spending even by the time the older Boomers are retiring, an effect that will build each year. It will already be a powerful negative by 2015 and 2020. The biggest problems will come however as large numbers of Boomers move from the young old, to the truly old, with expected health costs for 80+

year old people being much higher than 65 or 70 year olds. Lawrence Kotlikoff and Scott Burns have an excellent description of this issue in their critically acclaimed 2004 book, "The Coming Generational Storm", and draw the conclusion that the unfunded liabilities for Medicare and Medicaid are six times larger than those for Social Security.

These amplified Medicare problems with the Boomers born in the late 1940s will be hitting full power as they reach their 80s in the late 2020s, just as the Boomers born in the early 1960s are reaching 65 and retiring. This means that medical expenses for the oldest Boomers will leap to entirely new levels at the very same time that the retirement of the youngest Boomers has pushed to a peak the numbers of people trying to simultaneously cash out the markets (with that peak discussed in more detail in the 2nd pamphlet). To those youngest Boomers this may seem like a catastrophic example of Murphy's Law, something far worse than the older Boomers will face in the early 2010s – yet it, too, is entirely predictable today.

Four Ways To View The Experiments

Denial (Head In The Sand)

The most common response to the questions raised above is to hope that the questions are never asked. If questions are asked about the Boomer Bust or Consumer Spending Experiments, the next level of response is to adamantly deny that an Experiment is taking place at all. There is nothing to worry about – we have Long Term Historical Rates of Return.

Boomer Bust? Deny that the Boomers will have assets to sell. Consumer spending drop? Deny that Boomers will ever retire. Social Security and Medicare problems? Deny that long term investment returns have anything to do with the rest of the economy. In other words, deny that significant numbers of people have pensions or have actually saved much money, that people grow old, or that investments exist in the same world as the rest of the economy.

Denying that the Experiments will individually affect investment returns may seem to be an insult to your intelligence – but that is the prevailing standard within the industry (albeit far from a universal standard). There are numerous reasons for that standard, which could be summed up by saying there are financially powerful vested reasons for not admitting the market implications of the Experiments – therefore people don't even think about them, let alone admit them. We all have strong paradigms, both professionally and academically that are supported by 25 years of Boomer cash flooding into the markets, meaning the current circumstances are all that many professionals have known in their careers.

These current circumstances are lucratively profitable. About $10 trillion is currently invested through pensions and retirement accounts, and if we take the rule of thumb that about 2% of that gets pulled out annually through everything from fees and expenses to bid ask spreads, the financial industry is making about $200 billion per year off of the status quo. A lot of very well paid and well-connected people do not want that boat rocked.

This is not to say the professionals involved are nefarious, unintelligent, or intentionally doing harm. It is just that these professionals are like the wealth creators of the future – like all of us – in that they act in their own self-interests. Those self-interests prosper so long as the market implications of the Experiments are denied, and are threatened if those effects are admitted. Human nature being what it is, a lot of highly intelligent people are refusing to even consider changes to their perspectives, when such changes might threaten their financial self-interests. Particularly when those changes can seem theoretical and a very long ways away, compared to your current quite solid and real quarterly bonus.

As for the new concepts presented here in The Great Retirement Experiment, of a holistic combination of the Experiments from the perspective of the buyers – vigorous denial by at least some in the investment community can be safely anticipated. Note, however, that if your own objective is actually cashing out long-term wealth many years from now, and not short-term fees in the next several years, what is best for your self-interest may be the exact opposite of the interests of the person advising you.

(How an innocuous little financial equation called an internal rate of return (IRR) that *describes* the historical results of the impact of powerful economic forces upon investor rates of return – but inherently neither *predicts* nor *controls* those economic forces -- has been transformed into an omniscient, omnipotent, compounded future value behemoth which is used to essentially <u>guarantee</u> tens of millions of investors that each of their investment portfolios will exponentially compound in value at rates much higher than the rate of real growth

in per capita national wealth – so we can all enjoy the benefits of being wealthier than average -- is an interesting story. Chapter Three of Book One, "Pie Slicing & Missing Trillionaires" provides an introduction to that story.)

Financial Catastrophes (Pessimism)

While some people seek to deny the future will be different from the past, others have been spending a great deal of time looking at individual Experiments – and seeing trouble ahead. Robert Kiyosaki and Sharon Lechter, the authors of the phenomenally bestselling "Rich Dad, Poor Dad" series, took a long look at Boomer Bust related issues in their book "Rich Dad's Prophecy". Their conclusion was that waves of retirement account-driven selling would bring on the largest stock market crash in history. In his underground internet bestseller "The Great Bust Ahead", Daniel Arnold takes a chart oriented look at purported correlations between stock market levels and the percentage of the population in their peak earning and spending years. His conclusion – from an entirely different direction than Kiyosaki – is that the reduction in spending resulting from the aging of the Baby Boom will trigger both the greatest stock market crash in history, and a new Great Depression.

Coming in from yet another entirely different direction on other Experiments, well known and respected economist Laurence Kotlikoff and journalist Scott Burns teamed to examine the economic effects of Social Security and Medicare on the national economy in the book "The Coming Generational Storm", a book which was selected as one of the top business books of 2004 by Barron's and Forbes. Despite

essentially ignoring the Boomer Bust and consumer spending Experiments, they still found that (absent some highly unlikely immediate government policy changes) the price of meeting Social Security and Medicare promises would devastate the economy, reducing the United States to Third World economic status. Even that perpetual optimist among demographic investment futurists, New York Times bestselling author, Harry Dent, who has spent the last 14 years predicting bull markets -- sees the glory days of Baby Boom driven investment market "Bubble Booms" drawing to a close by 2010, followed by devastating and long term age- driven crashes in the stock, commodities and housing markets.

Adding everything up, if each Experiment on its own is capable of causing economic and investment catastrophe -- what happens when all happen simultaneously and build upon each other?

Outgrowing The Problems (Optimism)

Another answer is one of unfettered optimism. Whatever the problems that may appear to lie over the horizon – no problem, we will just outgrow them all.

Looking at America's history in the 20th Century, this could be a reasonable answer. In the process of leading the way from horse and buggies to the Internet while winning two world wars and the Cold war, the nation did deliver some strong long-term economic growth rates. Strong as these were, productivity gains will have to go to entirely new levels in the 21st Century, surpassing historical norms, if

the economy is to grow sufficiently to simultaneously not just survive, but thrive with the four Experiments.

Those accelerated economic growth rates are quite possible. As the potent triple cocktail of quantum computing, nanotechnology and genetic engineering not only race along independently – but converge – the combination may make the early years of the 21st Century appear quaintly primitive, when viewed in retrospect from the year 2020 or 2030. When we add in the innumerable other areas in which technology is advancing – in often surprising and unanticipated directions -- we may indeed be entering a whole new age of economic growth, that surpasses anything previously seen. Perhaps even an era where nano-repair robots in combination with stem-cell rejuvenation therapies banish the negative effects of aging on a cellular level, and make retirement as outmoded a notion for Baby Boomers as that obsolete concept of dying of old age.

This most optimistic of scenarios could very well happen. Then again, it might not. It could also be that a quantum computer software bug accidentally creates a genetically engineered universally lethal virus, spread worldwide by nano-replicators, that destroys all multicellular life on Earth during the week of June 17th, 2021. Or it could be more mundane problems such as global warming, peak oil, water-shortage-induced famines, deliberately created biological terrorism agents or nuclear warfare that wreak havoc upon our financial expectations for retirement. The uncertainties associated with major demographic problems in the United States and around the globe are not the only Experiments that will be running, nor are they necessarily the most important.

With all these uncertainties, perhaps the question is – why do we save? Do we risk our savings on the strategies that only work if the future is bright and sunny, so that we can enjoy a still better lifestyle in the guaranteed good times ahead? Or do we save because we are not so sure of what lies ahead, and because we hope for some protection in case problems arrive along with the good times? If it is the latter approach – do we really want to gamble our savings on strategies that crumble if problems do arrive?

Resilient, Creative, Brilliant People (People-Based)

There is another viewpoint about what will happen when the Baby Boom retires that is as simple and understandable as it is radical. This theory is that retirement is about people –not extrapolations of mathematical equations. In the pages that follow we will explore the Experiments from an entirely different perspective, that of the investors of the future.

THE INVESTORS OF THE FUTURE

A People-Based Perspective

Adding up all the economic expenses of the Boomers' retirement may be controversial and unaccepted by most of the investment community today – but the time will come when the people paying for those expenses are going to understand that holistic perspective very well indeed. For the people who will be shouldering the staggering expected burdens of Social Security and Medicare are going to be the

very same people who will also be cashing out the Baby Boom's $44 trillion in anticipated paper wealth. The same highly intelligent people who will be watching a new wave of Boomer retirees starting to sell their portfolios every year, even as consumer spending growth also takes another hit with each passing year.

Is it possible that these investors and wealth creators of the future might react, well – *intelligently* – to the many changes that have occurred between now and then? Could it be that we should be considering that intelligent people might react to unprecedented situations in ways that aren't neatly captured in mathematical projections based upon historical investment returns? If so, then perhaps there are some different, people-based considerations that we should be taking into account, with some different objectives. Such objectives as:

- **To recognize how the combined size and duration of the retirement related pension / investments / public entitlement plans for the Boomers constitute the largest intergenerational grab of cash and resources ever attempted.**
- **To consider that a bedrock principle underlying capitalism is that real wealth (goods and services) is collectively created by people in their many millions, who are all acting in their individual self-interests – and therefore these people will create that wealth in the manner**

that allows them to personally keep as much as they can of that wealth.

- **To consider that a second bedrock principle underlying capitalism is that it is a process of creative destruction which is driven by customers going to the most efficient providers, while the inefficient companies are destroyed. To consider the relative business efficiencies of companies that pay tens of trillions of dollars to already retired Boomers – and those that don't.**
- **To wonder about what tens of millions of bright, creative, talented people -- each with very high incentives -- might think up in their decades of innovative efforts to keep more of the wealth they create for themselves, instead of obediently passing it over to the retirees? As well as how that might transform the economy and the markets?**

So, people act in their own self-interests. If we make plans for other people that involve our getting future money from them to meet our needs, we need to consider the possibility that they may instead act in a way where they get to keep more of their own money. The more money we try to get – the higher the incentive for them to find a way to keep their money. By trying to lock in today more of the wealth of the future than has ever been attempted before – the Boomers are creating the greatest incentives in history for the talented and intelligent generations behind them to find ways to defeat their plans.

When the Future is Intelligent, and you push against the Future – the Future pushes back.

The investment "heresies" just keep mounting up. First we propose that investment returns can be affected by things like huge numbers of people trying to cash out their paper wealth, or by fundamental changes in consumer spending. Then, we say that people are intelligent, they act in their own self-interest, and that we shouldn't plan on a future financed by strangers buying our investments at the highest price levels in history – unless they see that as being in their own interests at that time. Are those really radical heresies? Or do they sound more like common sense and the very fundamentals of finance, economics and human behavior? Could these basic underlying forces really trump the awesome power of blind reliance on selected historical average investment returns to endlessly and exponentially repeat themselves?

We can only hope so. Because the source of the real wealth of the future will be the same as the sources of the real wealth of the past and the present.

Let's return to the problems we've discussed so far. We have the largest generation of the wealthiest nation in the history of the world. There is a lot of dispersion of wealth, but on average, the quality of life is very good indeed (by historical or international standards). Advances in medicine mean that the Boomers can expect to live long lives, with pretty good health well past the traditional age of retirement. Which means that a historically unprecedented number of

Boomers are faced with the problem of how to finance the consumption of a historically unprecedented amount of goods and services annually over a historically unprecedented number of years in retirement. Clearly an experiment, but as problems go – there are worse problems to have.

The common source of all these “problems” is the reason why we can be optimistic about the future. Because people are that source. The impersonal mathematical equations used in analyzing long term investment rates of return did not create the wealth. It was not market cycles that added decades of additional healthy years to our expected life-spans. It was the marvelous, resilient, creative people in their tens and hundreds of millions, working hard and pursuing knowledge and dollars while collectively acting in their individual self-interests that produced the wealth we enjoy today.

Real wealth for a nation is not, of course, what appears on a brokerage statement. Wealth is the economy, and the economy is people. When we look at the true financing of the retirement of the Baby Boom then, it isn’t to be found in bank balances. Instead it is an economy of real wealth in the form of goods and services that have not yet been created.

Could it be that the people who create that wealth will have some different ideas about what to do with it than we think today? Could it be that like every generation before them, the generations following the Boomers will be motivated not to fulfill mathematical extrapolations or work for other people’s parents – but to do whatever they can to help themselves first?

Who are these wealth creating people? There is a wide range of ages involved – and there is a good chance that you are one of them. If you are an adult now but were born after 1964, then the paying for the expenses of an aging Baby Boom will be occurring right through the peak earnings decades of your own lifetime. Peak earnings for which your elders have made extensive plans, indeed, you could say they see much of those earnings as already belonging to them.

If you are a younger Baby Boomer, then much of what is written here about the younger generations may also apply to you. While it is easier grammatically to break the world into black and white, Boomer or not, a late Boomer born in 1962 is of course going to have more in common with someone born in 1966, than an early Boomer born in 1946. The transitional years when the older and middle Boomers are transforming the markets are likely to occur while you are still quite active in your career, and in your own peak earning years. All of which means the biggest initial bulls-eye that the older Boomers are going to be zeroing in on -- may be painted on your wallet.

Whatever the year of your birth, if you are going to be producing the real wealth of the future – you are going to be acting in your own self-interest in doing so.

Mixing An Eight Part Cocktail

To better understand the investors of the future, we need to understand their situations, and how those situations differ from our own. While not all the investors who will buy out the Boomers have

been born yet, most of them have been, and the ones who will be in their peak earning years during the years the Boomers are still retiring, are already almost all adults. To consider why those investors (which may be you) will see things differently then, than they do today, lets mix together a potent cocktail of eight different things that will begin changing, even as the Boomers start to retire, and will build in power with each future year of retirees.

1. Every year from 2010 through 2028, the number of retires will be increasing, at an average pace of 4 million Boomers a year, about 78,000 a week. (Boomers, not Boomer households.)
2. Every year from 2010 through 2028, the percentage of the economy that is consumed by Social Security rises, increasing taxes and meaning less money available for investing.
3. Every year from 2010 through 2028, the percentage of the economy that is consumed by Medicare rises, at a faster rate than Social Security, increasing taxes and meaning less money available for investing.
4. Every year from 2010 through 2028, the number of people reducing their spending because of reduced after-retirement income swells, pulling down the corporate profit growth rates which stock prices are based upon. As shown in Schedule 1, even if investor wealth expectations are fully met – Boomer pensions and retirement accounts will still only replace about 45% of current average household income.
5. Every year from 2010 through 2028, the amount of paper wealth the Boomer retirees will be attempting to cash out the markets, and the corresponding real goods and services they plan to take out of the overall economy will rise by (on average) another

$135 billion. From roughly $68 billion in 2010 when the first year of Boomers retires (for an average of six months of the year, cutting the first $135 billion in half), to $203 billion per year in 2011 when the next year of Boomers retires, to $339 billion per year in 2012 when three years (out of nineteen) are selling, and so forth until building to an annual peak of about $2.3 trillion per year by 2027 (as illustrated in Lines 18 & 19 of Schedule 1 on page 56, and the accompanying line notes in E-Pamphlet Two, which are essential to fully understanding the illustration and its limitations.)

6. Every year from 2010 through 2028, the ratio of long term investment buyers to retiree investment sellers will decline another notch, as another class year of Boomers switches from buying to selling, even as they are not fully replaced by the following generations.
7. Over the period from 2010 through 2028, the investment prices and earnings for over 50 million Boomers MUST rise at a rate that is substantively larger than the growth in the real per capita economy – and exponentially compound for the Boomers not yet retired – or the magic retirement money machine starts to fall apart. As shown in Columns (5) & (6) of Schedule 2, Barry the unusually average Boomer MUST have his compounded paper wealth leaping forward, with the reinvestment earnings exponential equation running wild and unrestrained – or neither he nor his pension fund get what they expect. Since Barry is all of us, if he does not get what he expects – neither do we.
8. Every year from 2010 through 2028, the combined results of the unprecedented seven part combination of experiments listed above, will be carefully watched, evaluated, and anticipated by a

group of highly intelligent and motivated people. The generations behind the Boomers, the people who will be paying for the retirement of the Boomers, through both their investment purchases and their creation of the real wealth of the economy anew each year through producing the goods and services. Watching the whole process, feeling the increasing pressure on their wallets, seeking to each act in their own self-interests.

To mathematically work out how 1 through 8 of our cocktail all mix together, with all the interactions between them would require a horrendously complex series of econometric equations. A model that would in the end be prisoner of whatever assumptions were made, and therefore almost certainly be wrong – because econometric models don't capture changes in perceptions well, and they particularly don't capture psychological tipping points and paradigm changes.

Fortunately, there is a simpler way. Set aside, for the moment, your hopes as a future retiree, instead put yourself in the shoes of that future investor, walk around a bit as you revisit each part of our cocktail, anticipate that cocktail just getting stronger each year into the future, and ask yourself: what would you do? For it is people like you, making the decisions that you perceive as best serving your own interests, that will determine the real outcome.

Always keep in mind, that as bleak and powerful as the above forces will be – they are not the entire economy (though they will strongly influence the entire economy). What the cocktail sets up is the future situation when the unbounded exponential equation powering the wealth-building engine within most financial planning models, begins

to run up against a conflicting set of fundamental real world boundaries (as explored in Chapter Six of Book One, "Simple Plans & Complex Boundaries"). Much of the **expectations** of compounded future wealth for future decades may indeed disappear, with devastating implications for some of the most popular current long-term investment strategies. (Expectations are not noted for their stability when they are forced to converge with conflicting realities.) However, just as the fundamental technological and economic growth of the internet continued to surge forward even after unrealistic investor wealth expectations were dashed with the popping of the tech bubble, so too there is room for a great deal of optimism about the creation of real wealth in the years ahead.

Grabbing Hold of the Wealth of the Future

From the perspective of the younger generations, there is another way of looking at the combination of all these Experiments, that gets down to the essence of what they really are. For instance, let's look again at Social Security. It represents the promise that the elderly will be taken care of, and will not have to live in abject poverty when they are no longer going to a job every day. An extraordinarily worthwhile objective, and meeting that social justice goal should be paramount for any nation that considers itself civilized.

To pay for that worthwhile goal for their own retirements, the Baby Boom has plans for the wealth of the future. A big fat slice of the real wealth – not so much dollars, as goods and services – that has not yet been created, but will be created between roughly 2010 and 2050. Wealth in the form of food to eat, cars, heating & air conditioning,

repairs, plumbing, hair styling, and the myriad other necessities and luxuries that make life possible – and life worth living. Wealth that will not be created by the Baby Boom – particularly in the later decades – but will be created by the following generations. Wealth that the Baby Boom has already legally decided belongs to it.

The Boomers have also promised themselves the future wealth necessary to pay for the great Medicare experiment. Doctors, nurses, hospitals, drugs and research – the cost will be enormous for decade after decade. By the time the entire Baby Boom has retired and then grown older, unless current trends are reversed, we have 25-30% of the entire economy going to health care. (For the entire population, and not just through Medicare and Medicaid, but private insurance and individual spending as well.)

Then we add in what we have promised ourselves with our pensions. Tens of millions of people, to be supported in reasonable comfort for the rest of their lives. As promised and guaranteed by a multitude of corporations as well as state and local governmental bodies. With the company management and politicians of yesterday and today legally promising the wealth that is still decades away from creation by workers, taxpayers and shareholders of tomorrow.

While pension promises are made and guaranteed in full by companies and governments, the intent is for them to be paid using something else altogether – the (assumed) limitless wealth of the investment markets. The same source that individual investors rely upon. Thanks to the theorized inviolable laws of exponential compounding, tens of millions of investors and pensioners can lock in the rights today for

near limitless supplies of real goods and services over the decades to come (or so the common assumption goes).

What Social Security, Medicare, the pensions system, and the retirement investment industry all have in common is that they are all about wealth. Real wealth in the form of goods and services for Boomers for many decades to come. This real wealth does not yet exist -- in the present it is just dollar symbols, financial equations, plans and laws. For it to become real, this wealth will need to be created by younger generations. Yet long in advance of its actually coming into existence, this vast amount of future wealth has already been promised in full by the Baby Boom – to the Baby Boom. When we put it all together, then the true extent and nature of The Great Retirement Experiment become clear.

Never have so many people promised themselves today, so much of the real wealth that will be created by other people, for so many years to come.

Think of 77 million people reaching far into the future. Hands wide open. Grabbing everything they can. This may not be how most Boomers today see the issue. But the generations coming behind the Baby Boom may come to understand that image quite well indeed, as 77 million hands try to reach into their wallets, month after month, decade after decade.

Earlier in this pamphlet, readers were warned that some of the perspectives presented could be offensive to them – that is easily be true of this section. When we look at Social, Security, Medicare, pensions and retirement investments – every one of them are societal goods that we all want to preserve. Rewards for a long life of service and hard work, that previous generations of the elderly have been able to enjoy.

However, when we look back at history, in 1950 there were 16 workers for every Social Security beneficiary. By 2029 there will only be about 2 workers for every Social Security beneficiary. By itself, that shift means that it will cost eight times as much per worker to pay for our expectations of what the elderly are entitled to, than it did in the middle of the 20th century. Except the full cost of meeting Boomer expectations will be even higher than that. Because the Boomers expect to live comfortable, long independent lives. Cashing out many more investments to pay for those lives, enjoying comfortable pensions, and with much better (and much more expensive) health care options to prolong and improve their lives.

As good and as right as everyone of those expectations are, their full cost will come bearing down not on the Boomers – but the generations behind them. Who will likely react like every generation has before them – with their own self-interests in mind. What is right or wrong in this situation is difficult to assess, and may appear quite different depending on the year you were born. However, if your objective is to enjoy real wealth as a Boomer retiree, you may not wish to make plans that will require the people providing those real goods and services to go against what has been human nature.

The Investor of the Future (Pirates of the Boomer Bust)

So let's set up the situation. Most of the Boomers have already retired, and you are still working. Taxes are at a crushing level, as even partially keeping Social Security and Medicare promises are now consuming close to 25% of wage income. Federal income tax rates are on top of that and are also substantively higher, as the hidden subsidy from excess Social Security taxes is long gone, and now debts must be repaid. The government accounting shell game has moved on to its final stage, for the money to pay the principal and interest on the Treasury bonds that are the so-called assets of the Social Security Trust Fund has to come from somewhere – and that somewhere is you! State and local property, sales and income taxes have soared as well as the bills on expensive pensions and health care promises made to government employee retirees that have to be paid.

Yes, all the bills for all the myriad promises the Baby Boom made to itself are coming due, and all those public promises from long ago are being paid out of the same spot – your paycheck and wallet. With close to half being spent on taxes before you even get it, between the taxes for all the usual reasons and then the added Boomer costs on top of those. That makes it tough to pay the grocery bill, the mortgage, or the sky-high prices for gasoline, heating and air conditioning – let alone invest. A much lower percentage of the population invests than used to be the case. Who has the money after paying the taxes to support the Boomer's retirement needs? While the expensive remnants of the pension system still drag down legacy corporations and local governments alike, it has been many years

since an ordinary employee has been able to participate in an old-style pension. The steady inflow of trillions of pension fund dollars coming in that used to buy investments and support the markets are long gone.

Sure, there are plenty of tax-deferred investment plans around, under more generous terms than your parents ever had, as the government desperately tries to support the investment markets, but there has been a loss of faith in those kinds of things. The Boomers bought regardless of price – with lucrative benefits to their own parents – because so many experts had promised them a shining El Dorado in the future. Those dreams had disappeared long ago in the slow-motion destruction of the Boomer's retirement investment plans, year after year, until few believed anymore – even as rock-bottom prices grew ever more attractive.

You shake your head as you think about the foolishness of what those Boomers did en masse, blindly following selected mathematical formulas from the past without ever stepping back to look at the bigger picture. The Boomers loaded down the public benefit system with promises to themselves until it groaned, threatening to break and take down the entire economy with it. Looking at what they had done, and doubting whether the generations behind them could come up with taxes to pay all that had been promised, the better off among the Boomers prudently saved for the future. Investing in the faith that all 50 million of them would be able to steadily and simultaneously sell their investments to buyers who would <u>volunteer</u> to pay prices exponentially higher than Boomers paid. Something that would require by far the largest real dollar cash inflows to the investment

markets in history – but would have to be paid for with the money left over after these same people had been unable to pay for the mandatory public benefits? What were all those Boomers thinking?

You, however, do have a very well paying job, for you are one of the best and brightest. You can pay your staggering taxes, the expenses for your family, and still have money left over to invest. You are the exact sort of person that the Boomers counted on being there, to buy out their portfolios. You and the many millions of bright and talented people like you are the reason that the economy has not collapsed into a permanent depression, despite the simultaneous consumer spending declines and tax increases caused by the ongoing retirement of the Baby Boom (though there have been several quite nasty recessions along the way).

Perhaps most importantly -- unlike most of your peers, you have not lost faith in the investment markets, and you believe that the current depressed prices mean you will get some of the greatest long term returns in history. You love a bargain. You are trying to choose between two attractively priced investments. One is a three year old company, almost unknown, but with a foothold in the fast growing designer molecule manufacturing industry. The other is a legacy company, a global household name when you were still a child. Most of the companies from those days are long gone now of course, but this one has tenaciously hung in there and survived.

For the Boomers took their best corporate treasure galleons, loaded them so high with extravagant financial promises to themselves that the decks were barely above water, attached a flotilla of pension and

health care promises to be dragged behind them, and then sent them off to sail on a multi-decade voyage into that sea of creative destruction known as capitalism. A sea where the future turned out to be like the past after all – unpredictable and full of storms. A sea increasingly populated by vast fleets of well-armed foreign pirates, growing speedier each year with the ruthless efficiencies of ever-increasing globalization. With more corsairs appearing each year, in the form of domestic start-ups where the innovative wealth creators decided to keep the profits from the ever increasing pace of new technology development to themselves, instead of obediently passing the treasure along to passive investors of previous generations. Veritable swarms of corsairs, each nimbly darting about, unencumbered by payments to Boomers, and pirating not only the customers -- but the best sailors from our legacy corporate fleet at every opportunity. Somehow survive the pirates and the corsairs, and then the Boomer treasure galleons still had to face the ghost ships. Their legacy competitors, sunk in bankruptcy court, but rising again from their watery graves, stripped mean and clean of all those expensive and inefficient promises to Boomer pensioners who had worked their lives there, or Boomer stock and bond investors who had invested their life savings. There were a lot of ghost ships, as they were hard to compete against once they got started in an industry, and were therefore quite efficient at reproducing themselves…

(Call the above paragraph naught but a nautical fancy if you like – but first take a good, long look at what has already been happening in the airline industry, and likely getting ready to happen in the next year or five with the auto industry.)

You look back and forth between the financial statements of the two companies. The legacy company is famous, cheap – and still overburdened with promises to the past, carrying the financial survival of too many retirees along with it. The senior management has been unusually skilled to stay afloat this long, but the company is surrounded by nimbler competitors, and these competitors are hiring away the best talent. You are tempted, for cash is once again king in the markets and the dividend is so much higher than the new company – but you've bought into future ghost ships before, and have no intention of being dragged down with the old folks. So you buy the modern company shares, you don't support the price of the legacy company, and one of the last of the surviving Boomer treasure galleons drops a little lower in the water…

(The above is a very brief introduction to some concepts that are explored in depth in Books Two and Three of The Great Retirement Experiment: "The Pushback" and "Dancing With Our Children".)

ABOUT THE GREAT RETIREMENT EXPERIMENT

Free Pamphlets & Subscriptions

What you have read in this E-Pamphlet is an out-of-the-box approach to basic retirement finance questions. And that is too bad – because it shouldn't be. Because what passes for the conventional wisdom about financially preparing for retirement rests on some foundations that are much shakier than most people realize. As an example, let's take the information and perspectives presented on the previous 45 pages and sum them up a different way:

Asking tens of millions of people to prepare for one of the biggest demographic changes in US history – by using a financial approach that ignores demographic changes – should be vigorously questioned.

Does the statement above make sense to you? Do the implications worry you? Have you read anything else that was new to you in the pages up to here? Did you find yourself considering any other perspectives that were new to you? Perspectives that sound like common sense to you? Considerations that maybe all of us should be thinking about?

If the "heretical" notions contained herein sound like common sense to you, then please pass on this free and educational E-Pamphlet – full of fresh perspectives – to people you know who might be able to benefit. You can attach a copy of this file to an e-mail, send a link to the website, The-Great-Retirement-Experiment.com, send a link directly to the e-pamphlet download page, write about it and post a link on your website, or print out as many paper copies as you would like.

There will be lot more information and out-of-the-box perspectives to come, for this is only the first in a series of free E-pamphlets that are designed to challenge the status quo, change perceptions – and help get a dialogue going. A dialogue about the best ways we can find for an unprecedented number of retirees to live in financial peace with the generations behind them, instead of engaging in "Generational Warfare". About what each of us can do as individuals to build real

wealth for ourselves and others, by making our savings work to help the wealth creators coming behind us.

If you would like to be sure you see these following e-pamphlets, then please go to the "Free Subscription" page at the website, and follow the simple instructions for your free E-Pamphlet subscription. You will then be notified when new free E-Pamphlets are released, as well new books or other products. You may easily unsubscribe at any time.

The Books of The Great Retirement Experiment

One way of briefly summing up what we've talked about so far is to break it into three parts that build on each other: (1) there will be multiple major market and economic Experiments occurring in the future, that when taken together mean the Boomers are planning on the largest intergenerational resource grab ever attempted; (2) the intelligent and talented generations behind the Boomers – the wealth creators of the future – are going to vigorously resist having unprecedented amounts of the wealth they create being grabbed by retirees, with that resistance taking many different forms, from elections, to how they invest, to how they work; and (3) the most profitable long term investment strategies will involve finding ways of aligning our interests with the wealth creators – not fighting them or investing our life savings today in futile attempts at controlling them.

That three part split of (1), (2) and (3) above, is the principle behind the organization of the topics covered in Book One ("Contracts With Our Children"), Book Two ("The Pushback"), and Book Three ("Dancing With Our Children"). These books build upon each other in exploring

The Great Retirement Experiment, a holistic and people-based look ahead to the future where we will all be living.

"**Contracts With Our Children**" is the title of Book One of The Great Retirement Experiment. The book begins by discussing the underlying people-based nature of retirement, and the move from the traditional plan of relying on our individual children, to the modern plan of relying upon our collective children. Investments and pensions are placed in context as two of the Five Contracts that we have collectively set up to obligate our collective children to pay for our retirements. Starting from that perspective, we move into an exploration of many aspects of the Experiments, with a few highlights listed below:

We take a look at the extraordinary convergence of factors that has been pouring Boomer cash into the markets for decades. With the tax rules, accounting rules and prevailing theory combining to keep the cash coming in but not going out. We next look at each of these factors one by one, and ask the question – what happens when they reverse as the Boomers steadily retire?

We look at two growing pies, one being the real economic wealth of the nation on a per capita basis, and the other being investor wealth expectations. We find that many investors are expecting their own wealth to grow at higher rates than per capita real wealth, and that when exponentially compounded in the traditional financial planning manner, the expected wealth pie grows much larger than the real wealth pie. Which is fine for real resources for a few million people, or for paper wealth for everyone – but what happens when fifty million people are trying to systematically

convert all of their exponentially compounded paper wealth into the real resources that haven't kept up?

We offer to make the reader a billionaire and instantly succeed – by using the same accounting logic the federal government uses with the Social Security trust fund. From there we go on to cut through the convoluted mess of politically motivated and deceptive government descriptions and down to the underlying economic realities of Social Security – and how those burdens will be bearing down on future taxpayers.

We look at three Boomer siblings: Wendy, Cheryl and Bill. While each might appear to have separate sources for retirement security, we examine how the investment markets are particularly exposed to pension and Social Security problems, rather than being an isolated refuge from them. We drill down into the numbers to find out how much of Wendy's retirement investment plan is based upon what is solidly real today versus how much is based upon growth assumptions about that future – and then what happens to those assumptions (and Wendy's retirement) when the Social Security beneficiaries and pensioners of the world retire and reduce their consuming.

We develop one of the most important themes in the series. From an impersonal economic equations perspective, when you attempt the impossible, you may appear to collapse the system. When you and many others all attempt the impossible in a way that is directly against the interests of a large group of highly intelligent and motivated people, however, all you do is increase their incentives

to invalidate your attempt, as they change the system to avoid a collapse. Which can be a problem when these other people are collectively running the world at the time, and your "attempt" consists of your life savings and social safety net.

"**The Pushback**" is the title of Book Two of The Great Retirement Experiment. (Available winter of 2006/2007.) In this book we take the Experiments from the previous book, wrap them around each other, and try to see what the future will look like from the perspective of the younger generations as they pay for Boomers' retirement. When we assume that these highly intelligent wealth creators are acting in their own self-interests, then everything changes. They may not obediently line up for the privilege of buying investments from their elders at high prices, so that the laws of mathematical compounding will be fulfilled. Instead, our collective children may have a distinctly... predatory... gleam in their eyes as they explore with their elders just how that whole retirement investment pricing thing is actually going to work.

This book is a look at what happens when a self-centered generation pushes hard against a Future that is Intelligent – and that Future pushes right back. A Pushback that will change the way many people work – as well as how investments are perceived and judged. A Pushback that will devastate the pension system as its transformation continues, from a former sleepy financial backwater providing security to retirees, to a tightly interlinked network of explosive risks that can bring down governments, corporations and individual investors alike (whether new benefits have already been frozen or not). A Pushback in the face of extraordinary challenges that will create extraordinary new investment opportunities – for those who are prepared.

(More detailed descriptions of these and many other of the most interesting concepts within this book will be found in future E-Pamphlets, which will be circulated at the time "The Pushback" becomes available for purchase.)

"**Dancing With Our Children**" is the title of Book Three of The Great Retirement Experiment. (Available spring/summer of 2007.) This book suggests that if we want to personally have access to as much of the wealth of the future as possible – then we need to change our approach. To shift from a strategy of using history-based mathematical equations to extract cash from an unthinking ATM through generational warfare – to an approach of dancing well with a talented partner through anticipating his or her ever changing movements. To understand that if a convergence of multiple factors means that expectations can't be met, we can bend and flex with markets in turmoil instead of building glass towers that soar high – but shatter when stressed. To understand how we can be there as investors for the best and brightest of our children when they will need us the most. Dance well, and we will find that while there will be interim periods of turmoil ahead that may be catastrophic for many investors at the time – the retirement of the Boom may also end up ushering in a new golden age of long term investing, based on more solid foundations, with high real returns that will last through the long years ahead.

We can respect our collective children's intelligence, understand their motivations, be there for them when they need us – and dance in harmony with our talented and creative children. Or we can bash the

deadbeats over the head with our walkers in an attempt to shake them down for what we have promised to ourselves, but what they don't have. Which one sounds better for your golden years?

(Somewhat more practical descriptions of the particulars involved with our dancing metaphor, as well as lots of other interesting explorations, will be found in future E-Pamphlets, which will be circulated at the time "Dancing With Our Children" becomes available for purchase.)

There will be other books following these first three, please check the website for details as they become available.

About The Author

Daniel R. Amerman is a financial futurist, author, speaker, and consultant with over 20 years of financial industry experience. He is a Chartered Financial Analyst (CFA), and holds MBA and BSBA degrees in Finance from the University of Missouri. He has spent seven years developing a large, unique and intertwined body of work, that is devoted to using the foundation principles of economics and finance to try to understand the retirement of the Baby Boom from the perspective of the people who will be paying for it. Several key aspects of that work of futurism are introduced in this e-pamphlet, and much more will be presented through a series of books and e-pamphlets becoming available at The-Great-Retirement-Experiment.com over the next several years.

Since 1990, Mr. Amerman has provided specialized quantitative consulting services to financial institutions, with a particular emphasis

on structured finance. Previously, Mr. Amerman was vice president of an institutional investment bank, with responsibilities including research, synthetic securities, and capital market originations.

Two of Mr. Amerman's previous books on finance were published by major business publishers. "COLLATERALIZED MORTGAGE OBLIGATIONS, Unlock The Secrets Of Mortgage Derivatives", was published by McGraw-Hill in 1995. Mr. Amerman is also the author of "MORTGAGE SECURITIES: The High-Yield Alternative To CDs, The Low-Risk Alternative To Stocks", which was published by Probus Publishing (now a McGraw-Hill subsidiary) in 1993. Advertised by the publisher as a professional "bestseller" for four quarters, an Asian edition was sold as well.

Mr. Amerman has previously spoken at numerous professional seminars and conferences nationwide, for a variety of sponsors including New York University, the Institute for International Research, and many others. After the publication of his prior books, he acted as keynote speaker at a number of banking related conferences over the next several years.

For more information including the origins of the body of work that is The Great Retirement Experiment, click here.

One Page Summary(*): Adding Up $44 Trillion Of Boomer Wealth Expectations

This pamphlet is devoted to exploring an unusual but important question: how expensive will it be to cash out the Baby Booms' investments and meet their collective wealth expectations? Summary results of the 51 pages of schedules, discussion and footnotes are:

A little over **50 million** Boomers have retirement accounts and/or pensions. Total investments in accounts dedicated for Boomer retirements was **$6.1 trillion**, including IRAs, Keoghs and pensions.

Those assets will not be cashed out today, but are invested for the long term with the expectations of substantial returns. Using the methodology described herein, total expectations for retirement investment wealth for all 50 million Boomer retirement investors were calculated to be **$44 trillion**.

The present value cost of those wealth expectations (at 3% inflation) is over **$22 trillion**, almost twice (180%) the size of the current annual national economy.

Even if those wealth expectations are met in full, the sum of all Boomer pension and retirement account income (in current dollars) will replace only **45%** of the total income for all 77 million Boomers, meaning a shortfall of **55%** for the entire generation, that will have to be made up from other sources.

The amount of paper wealth expected to be cashed out for real goods and services by Boomers will build year by year, as more Boomers retire each year, until it reaches a peak of **$2.3 trillion per year** by 2027.

The inflation adjusted annual cost of cashing out those wealth expectations will peak at **$1.3 trillion per year** in 2027 – about **2.5 times as large as the current annual cost of Social Security**.

(*) The financial calculations to precisely model the retirement wealth expectations of more than 50 million individuals, each with their own individual ages, situations and goals, would be extraordinarily complex, and would require a database of individual level information that does not exist. The numbers above are based upon a relatively simple two page model that is designed to be understandable by people who are not financial professionals. There were compromises in reaching that level of simplicity and every number above is therefore limited by the methodology and assumptions whose documentation makes up the majority of this pamphlet. Since the actual outcome will be dependent on unknowable actual future investment returns and Boomer behavior, this model should be considered an illustration of the total retirement wealth expectations of the Baby Boom, rather than a precise forecast or comprehensive econometric model.

Schedule 1

Adding Up The Boomers' Retirement Wealth Expectations

The-Great-Retirement-Experiment.com

Line		Description
1	45,800,000	Boomer Households
2	$136,215	Average Retirement Account Value for Boomers Having Such Accounts
3	58%	Percent of Boomers Who Own Retirement Accounts
4	$79,005	Average Retirement Account Value adjusted for ALL Boomer Households
5	1.68	Adjustment for Boomer Pension Investments
6	$132,728	Average Value of Each Boomer Household's Total Retirement Assets
7	$6,078,937,636,800	Total Current Value of Boomer Retirement Assets
8	7.20	Future Value Multiple With Standard Investment/Retirement Assumptions
9	$955,601	Cost to Cash Out Each Boomer Household
10	**$43,766,510,292,789**	Cost to Cash Out All Boomer Retirement Investments, Including Pensions
11	$11,700,000,000,000	United States Gross Domestic Product, 2004
12	3%	Inflation Discount Rate
13	$22,409,368,132,218	Present Value Cost of Cashing All Boomers Out
14	$28,782	Present Value Per Boomer Household Per Year (Real Retirement Income)
15	$64,360	Average Income Per Boomer Household, 2003
16	45%	Percent of Boomer Income Replaced by Retirement Accounts & Pensions
17	**55%**	Percent Decline in Boomer Income After Retirement, Before Social Security, Work Earnings & Proceeds From Other Assets
18	$135,500,031,866	Average Annual Cashing Out of Paper Wealth Per Boomer Class Year
19	$2,303,500,541,726	Peak Annual Cashing Out of Paper Wealth by Boomers (2027, 2028)
20	$1,275,392,399,709	Present Value of Peak Year of Cashing Out Paper Wealth (2027)

Detailed column notes and discussion can be found in the 2nd pamphlet

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Schedule 2

Retirement Financial Plan For
Barry The Unusually Average Boomer

The-Great-Retirement-Experiment.com

(1) Year	(2) Boomer Age	(3) Annual Savings	(4) Retirement Spending Drawdowns	(5) 8.00% Earnings	(6) Ending Balance	(7) 3.00% Present Value
1992	35	4,526		362	4,888	0
1993	36	4,526		753	10,168	0
1994	37	4,526		1,176	15,869	0
1995	38	4,526		1,632	22,027	0
1996	39	4,526		2,124	28,678	0
1997	40	4,526		2,656	35,860	0
1998	41	4,526		3,231	43,617	0
1999	42	4,526		3,851	51,995	0
2000	43	4,526		4,522	61,043	0
2001	44	4,526		5,246	70,815	0
2002	45	4,526		6,027	81,368	0
2003	46	4,526		6,872	92,766	0
2004	47	4,526		7,783	105,076	0
2005	48	4,526		8,768	118,370	0
2006	49	4,526		9,832	132,728	0
2007	50	4,526		10,980	148,235	0
2008	51	4,526		12,221	164,982	0
2009	52	4,526		13,561	183,068	0
2010	53	4,526		15,008	202,602	0
2011	54	4,526		16,570	223,699	0
2012	55	4,526		18,258	246,483	0
2013	56	4,526		20,081	271,090	0
2014	57	4,526		22,049	297,665	0
2015	58	4,526		24,175	326,367	0
2016	59	4,526		26,471	357,365	0
2017	60	4,526		28,951	390,842	0
2018	61	4,526		31,629	426,998	0
2019	62	4,526		34,522	466,046	0
2020	63	4,526		37,646	508,218	0
2021	64	4,526		41,020	553,764	0
2022	65	0	56,212	39,804	537,356	36,080
2023	66	0	56,212	38,492	519,636	35,029
2024	67	0	56,212	37,074	500,498	34,009
2025	68	0	56,212	35,543	479,829	33,019
2026	69	0	56,212	33,889	457,506	32,057
2027	70	0	56,212	32,104	433,398	31,123
2028	71	0	56,212	30,175	407,361	30,217
2029	72	0	56,212	28,092	379,241	29,337
2030	73	0	56,212	25,842	348,872	28,482
2031	74	0	56,212	23,413	316,072	27,653
2032	75	0	56,212	20,789	280,649	26,847
2033	76	0	56,212	17,955	242,393	26,065
2034	77	0	56,212	14,894	201,075	25,306
2035	78	0	56,212	11,589	156,452	24,569
2036	79	0	56,212	8,019	108,260	23,853
2037	80	0	56,212	4,164	56,212	23,159
2038	81	0	56,212	0	0	22,484
		135,786	955,601	819,815		489,288

Detailed column notes and discussion can be found in the 2nd pamphlet

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