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How Congress Has Already Planned “The Next Depression”

Guest Columnist
by Bruce Weide



Second of three parts

Robert Kiyosaki, author of the “Rich Dad Poor Dad” series predicts it to be “the biggest stock market crash in history” starting roughly around the year 2016.

Harry Dent, an incessant bull for the current decade, calls it “The Next Depression” starting roughly in 2009.

If you and your financial adviser have never even spoken about it, I’d call it whistling in a hurricane, or at least naïve financial planning, to be kind.

The problem with many investors and even financial advisors is that they too often look only at the minute short-term causes and effects on stock market behavior. We know that there was something called a “tech bubble” and it burst for a couple of years. But that’s all “corrected” now – right? Then there was this inconvenient war upsetting the market, but when that blows over things should be fine.

But what is it that actually propels the long-term trends of markets? Do they in fact climb naturally if we just don’t make any severe blunders? And more importantly, are those driving forces inherent and can we count on them forever?

I’m afraid stock market growth is not as inherent as gravity. It doesn’t just take a lack of mistakes for the stock market to appreciate in value. It takes the correct set of circumstances, demographically and subsequently economically, to make a market climb.

Now I’m no economist. But I have a personal predilection for Harry Dent’s studies. His two best sellers, “The Roaring 2000’s” and “The Roaring 2000’s Investor” are chock full of the key demographic statistical charts that have astonishingly forecast economic and stock market behavior for the last 50 to 100 years or more. In other words, if you want to know where the Dow is going can we look for a graph(s) that is identical to the Dow’s behavior, but is actually a precursor of it by a number of years?

Dent does this exhaustively, and he writes:

“The critical insight is this: The massive baby boom generation will drive spending and productivity trends higher into late 2008 to mid-2009... Then there will be an economic downturn that will change your life and your investments. You have to plan for the boom and the bust today.”

Dent is certainly not alone in crediting the overshadowing dimension of the Baby Boomers, born from 1946 to 1964, as the key force propelling up stock prices today.

Retirement Boom

But what happens when the Boomers begin to retire in the next decade? What happens when the principal demographic majority, born over an 18-year span mind you, wants to take those savings and sell their stocks? Demand decreases and well, you can guess the consequence.

Now here's where Robert Kiyosaki's complaint comes in. Because even if you have planned perfectly and have so much wealth that you don't need or want to sell your stocks, if they're in a Qualified retirement plan, such as a 401K, IRA, or Keogh plan, you have no choice.

Under the ERISA (Employee Retirement Income and Security Act) laws of 1974, which formulated many of these plans, when you hit age 70½ you must begin a program to liquidate your portfolio and pay taxes on the income. No way out.

Unfortunately, these type of Qualified plans are how the majority of Baby Boomers have nestled their savings.

3 Types of Investors

Consider three different types of responsible investors.

The first type is hands-on involved in managing his/her portfolio on a routine basis. They study each of their funds and stocks, are watchful of market trends, and they are deliberate about how they invest for long-term vs. short-term goals.

What should this investor do about these risks I mentioned above? If you haven't previously considered these scenarios then you are undereducated for the risks you're taking. You'd better start boning up on it today. Again, Harry Dent's material is a good place to start, but continue on from there.

The second type of investor is much like the first type in that they are willing to closely manage their portfolio, but they don't have time for it. This investor may want to consider hiring a professional money manager who will charge you 1-2 percent of the value of your portfolio annually, however you'll need to start typically with a \$100,000 portfolio to give them. But please, get a darn good one who can think with the potential shifts in the next decade.

The third type of investor understands that over the long run stocks have a history of greatly outperforming safer guaranteed investments. They are disciplined about saving and investing, but they just don't have the time or propensity to be as vigilant with their portfolio as the first type, and they are not inclined to pay fees and hand over large sums of their security to a money manager with no guarantees.

This investor needs to invest with downside guarantees. For example, there are financial vehicles today that will allow you to participate in the gains of several major market indices, such as the S&P 500, DJIA, or Russell 200 small cap, but they also have minimal guarantees (typically around 2 percent) that will still protect your values in the event of a market collapse. In these types of vehicles you can get double-digit returns in the good years, your values lock-in each year, and will never decrease in the bad years.

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