

# **HEADED FOR A RUDE AWAKENING?**

## **MARCH 2006**

In all the years I have been writing this newsletter and doing the radio show I have never witnessed the precipitous instances of investment fraud throughout the nation. I have read on average about ten stories a day about one investment scam or another from all corners of the country. It is quite a lot to keep up with, and I know it is only going to get worse.

Despite all the warnings by investor and consumer advocates like us, Americans, in particular, baby-boomers are being increasingly victimized by the world's second oldest profession, *the "get rich quick con-artist."* The explanation behind the onslaught of fraud is nothing other than pure desperation. The baby-boom generation is woefully unprepared for retirement and is falling victim to the charlatans that are promising a quick and easy road to riches. The Spectrum Group of Chicago just released a study entitled "2005 Defined Contribution Market Needs." That study indicated that participation in 401(k) plans was 70% last year down from 72% in 2002 and 80% in 1999 representing a six year decline of 13%. Last year over \$30 billion was left on the table by Americans in employer matching funds that were unclaimed for failure to contribute. Americans are saving less and less and spending more and more. Many people we encounter have adopted the Alfred E. Newman outlook of "what me worry?" when it comes to retirement and are headed for a rude awakening.

I was thinking about paraphrasing one of the frequent and eerily similar conversations that I have with friends, readers or listeners to help articulate my point regarding the prevailing attitude toward retirement savings. However, I did not want to offend anyone, instead I will use a piece by columnist Ben Stein entitled "Living Hand to Mouth and Barely Getting By".

***One of my closest friends is a lovely 45-year-old woman whom I will call Vivian. She has a good job in real estate, a lovely rented apartment in a city in California, a sweet little car, and elegant clothing. She earns about \$75,000 a year.***

***A few days ago, I asked her if she had considered her retirement portfolio.***

***She looked shocked and asked, "What retirement portfolio? Do I look that old?"***

***"No," I answered. "You look shockingly youthful. But what are you doing about your retirement?"***

***"Well, nothing," she said. "I don't even have any money in my savings account and barely any in my checking account."***

***"Do you have a 401(k)? Or maybe a pension? Or IRAs?"***

***"No," she said defiantly.***

***"Well," I asked, "with all due respect, how are you going to provide for your retirement?"***

***"I don't know," she said.***

***"I think you should try to save maybe \$500 a month starting right now in a very carefully chosen investment," I told her.***

*"I can't," she said. "I don't have the money. Besides, \$500 a month is nothing. It wouldn't amount to a thing. I might as well spend it at Nordstrom's."*

*I took out my calculator and punched some buttons. "I beg your pardon," said I, "but if you save \$500 a month and earn an average of 8.5 percent on it for the next 20 years, you'll have \$316,000 by the time you're 65. It's not a lot, but it's a lot more than nothing, which is what you have now."*

*She stared at me incredulously. "Do you think I'm going to work another 20 years?" she asked. "No way."*

*"Well, then what are you going to live on when you stop work?"*

*"Social Security," she answered.*

*"That won't kick in until you're 66 or 67," I said, "and it won't be more than a pittance by then."*

*"I'm leaving," she said. "There's a sale at Nordstrom's. I have to buy something to distract myself from what you've been telling me."*

If this conversation just so happens to remind you of a certain someone that stares back at you in the mirror every morning, then we have a problem to deal with.

For years we have been working to get our message of saving, compounding interest, and proper portfolio management across on the radio and in the newsletter by presenting our points with a little brevity and humor. Now, I am going to try the approach Vito Corleone used on Johnny Fontaine when he was whining like a Hollywood liberal in the first Godfather movie. Here it goes... **"YOU CAN LIKE A MAN!"** In the movie Vito slapped Johnny across the face, I am able to do that for you by appointment only.

In all seriousness, we are facing a problem of monumental proportions. The baby boomers are the largest part of the population at 78 million. In order to maintain their current lifestyle an enormous amount of capital will be required. Every month we are witnessing pensions that are collapsing and being pushed on to the taxpayers with Delta Air Lines being the latest. Social Security is a pittance at best, and the average savings for a baby boom household is less than \$50,000, not including their homes. These facts have opened up a huge opportunity for scam artists and unscrupulous brokers promising that they will get you **"caught up"** in no time. I will remind you once again that there are no such programs or investments I don't care what Iron Butterfly or Grateful Dead song is being played in their ridiculous advertisements.

The earlier you start to save, the less you will have to save. Understand that the heart of financial planning is to match liabilities with assets. Retirement is a liability that needs to be dealt with sooner than later.