



HEY BOOMER, OUR BULL MARKET JUST TURNED BEAR. AGAIN.

A historic generation has enjoyed historic success - with some significant bumps on the climb

By Steve Gresham

The first Baby Boomer was born right after World War II, in 1946. A record 10,000 babies were soon being born every day. The economic boom created by the combination of long-awaited global peace, repurposing wartime manufacturing infrastructure and the population growth began a historic expansion in the US and a newly forming global economy.

In 1973-74, the stock market was overwhelmed by hyperinflation, wage and price controls, the Arab Oil Embargo and the resignation of President Nixon. The following year, the US Government deregulated the market for brokerage commissions, opening up a closed club of securities dealers to broader competition, including the new Charles Schwab Company.

In 1980, consumer price inflation in the US exceeded 13%, the yield on the 30 year Treasury was more than 11%, heading to a peak of 13.45%. Treasury bill yields would top 14.5% in 1981. Fed Chairman Paul Volcker shocked the system with the highest Fed funds rate in history. Inflation was beaten down, rates declined

and the long Treasury provided a 52% total return in 1982.

In 1987, the Dow Jones average had more than tripled since 1982 and new trading strategies known as portfolio insurance triggered a 30% drop including a 22.6% single day fall in the Dow in October. In that same year, EF Hutton and Merrill Lynch introduced programs allowing their clients to access the services of professional investment managers. Those programs would go on to become the single most successful investment product in wealth management as clients and their advisors evolved from buying individual stocks.

In 2000, technology stocks had driven the NASDAQ index to a fivefold increase from its level in 1995. At the 2000 Super Bowl, 17 dot.com companies paid over \$44 million for advertising spots. The sell-off was triggered by recession in Japan and increasingly crazy premiums for IPOs, with the NASDAQ eventually losing 78% from the 2000 peak, or virtually all of its gains since 1995. The terrorist attacks on

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the World Trade Center and Pentagon on September 11, 2001 and ensuing military action in Iraq put further pressure on equity markets.

In 2007, the stock market had rebuilt value in the aftermath of 9/11, and technology stocks had been replaced by the widespread use of financial instruments based on real estate values. Political and economic factors included a new Iraq war, a return to deficit spending, tax cuts for high earners and policies encouraging consumer spending and home ownership. The sell-off was triggered by the collapse of two large Wall Street firms and eventually erased 54% off the Dow Jones Industrial Average during the 17 month bear market, bottoming out on March 6, 2009 at 6,469. In October 2008, Congress authorized \$700 billion to support banks and other key financial institutions. The 2008 Crisis was the biggest economic downturn in the US since the Great Depression.

Economic recovery post-2008 was led by an \$831 billion stimulus package aimed at consumer spending (including the auto industry), plus gains by economies outside the US that did not have exposure to the subprime mortgage housing bubble. China in particular invested in infrastructure while the US stimulus targeted consumer spending. US financial institutions stabilized, with securities firms becoming banks and several receiving direct investment or merging (e.g., Bank of America and Merrill Lynch), but lending activity was limited as the institutions held capital and invested in government securities, driving yields down.

Stock prices recovered and gained new ground relative to low bond yields in an extended period of general global economic recovery, expansion and relative geopolitical calm. There were no specific areas of excess or “bubbles”. A new economic factor was the meteoric rise of large technology firms including Google, Facebook, Apple and Netflix. Unemployment reached historically low levels, the Federal government cut taxes and added stimulus while continuing to cut interest rates.

In 2020, the stock market powered on with the Dow Jones peaking on February 12, 2020 at 29,551, up 4.5x the 2009 low. Political turmoil in the forms of growing nationalism has created a divided global marketplace punctuated by Brexit, tariffs and military posturing. Additional consumer stimulus in the form of tax cuts and lower interest rates continued to push the US economy forward.

The outbreak of a novel respiratory virus in Wuhan, China quickly reached pandemic levels throughout the world. Government responses to contain the virus have significantly impacted the prospects for global economic growth, triggering sharp sell offs in global equity markets. On March 16, stocks fell 13% in one day - the largest single day drop since October 1987, and total losses from the peak surpassed 30%, marking the 12th official bear market since 1962. And then it happened again. And again.

Most of the clients of the financial advice industry are 55+ and the largest cohort had a median age of 64. The average age for retirement in the US was about 60 and median is 62. So in the year 2020, more people are of retirement age than ever in the history of the US. Concerns about stocks and frustration with low interest rates have retirees and pre-retirees steadily selling their investments and searching for opportunities to fund retirement income.

The historic economic expansion has also created robust value in residential real estate, with the equity value of US homes now exceeding \$32 trillion - more than the value of investable assets. 37% of homes have no mortgage and home equity has significant potential to support the retirement income needs of Americans. Innovation in the retirement income industry appears to be the Next Big Thing, with a long tail of opportunity among the aging population. Firms seeking to capitalize on the potential will focus on protected income, lifetime income, longevity planning and strategies to leverage investor capital to meet obligations of healthcare, longevity and legacy.

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