



Life Goes On

In recent years, I've been rather vocal in voicing my concerns about the health of the economy. It is my belief that a combination of debt overhang and aging demographics will make it very difficult for us to enjoy the kind of sustained growth that we all grew to expect in the 1990s and most of the 2000s.

Debts are only reduced one of two ways—through repayment or through default—and neither is particularly good for the economy. It's what the economist John Maynard Keynes called the "Paradox of Thrift." While it is good for any one of us to be frugal and save for retirement, if we all do it at the same time it kills the economy. What is good for the individual is not always good for the group, at least in the short term.

The Baby Boomers—the largest and richest generation in history—are unfortunately now in the stage of life where saving is more important than spending. This is bad news for the country as a whole, and it will act as a drag on the economy for years to come.

Yet take heart—not all the news is bad. The generation currently in their 20s and early 30s—the Echo Boomers—are already doing their best to pick up the torch.

I'll explain with an example. One of my long-time associates is an investment analyst in his mid-30s who has preached for years that buying a home is a bad investment. Yet knowing this, just this past year he bought his first house, complete with all of the expenses that go with it. Why, you might ask? His two-year-old son needed a yard to run in.

Across America, there are millions of people in their 20s and 30s going through this exact same process. And given a little time, they will eliminate the country's housing glut and keep its malls, restaurants, and furniture stores busy.

As for the rest of us, Americans have by and large already cut out most of the discretionary spending that they can hope to cut during the past three years of crisis and recession. Much of the rest—house payment, insurance, utilities, phones, and possibly car payments—are fixed expenses that we can do little to control. Consider your own budget; how much of your expenses are by "choice" and how many fall under the category of basic lifestyle maintenance? If you're like most Americans, you will find that most of your spending falls into the latter category.

This tells us a couple things. First, while consumer spending may not be as strong as it used to be, there is a firm baseline that keeps the economy afloat. And while I expect the coming years to be difficult, I am optimistic enough to know that Americans are resourceful and that life goes on. And as investors, this means that there will always be opportunities for those of us willing to look.

Sincerely,

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