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Baby Boomers Going to Ground

They're Not Spending

By Kevin Bourke

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When a snake eats an object larger than itself, you can watch that object work its way through the snake's body.

Baby boomers have done something similar to the economy. Over the decades, about 79 million boomers have had a tremendous impact as they grew up, got married, bought houses, and saved for retirement. They've been like that large object in the snake, creating a bulge in the economy that is unmistakable. And now, as they are nearing retirement, they are again going to have a noticeable impact on the economy.

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I believe that it won't be pretty, unfortunately.

Consider this: Baby boomers started turning 60 in 2006 in large numbers. Just prior to that, they experienced a severe decline in the capital markets as the stock market swooned in 2000, 2001, and 2002. Then, just when they may have been feeling confident again that the market would carry them through retirement, along comes the Great Recession of late 2007 though early 2009, along with another severe stock market downturn.

Do you believe that the average investor is going to have the same confidence they had several years ago? Or are they going to be much more conservative, telling themselves that it's best to avoid investing in the capital markets?

And what about spending? According to an August 3 article in *Business Week* , companies that cater to boomers are running scared. Why? Because they are experiencing a collapse in demand for many items that were big sellers just a year or two ago.

One example is Mercedes Benz, which expects to sell one third fewer cars in the U.S. this year than last. Mercedes Benz is responding by focusing more of its marketing efforts on a younger generation of buyer, ages 20-32.

Will buyers ages 20-32 be able to pick Mercedes Benz back out of their slump? Not anytime soon; that group is experiencing high unemployment at the moment. Will baby boomers be spending money on new or second homes, house remodels, flashy cars, and other big ticket items? I don't believe so. Simply put, they don't want to go back to work, or continue working indefinitely. So they are going to scale back, save more, scrimp, and generally be more fiscally conservative than ever.

With big implications for the economy and capital markets.

Should you then pull your money out of the capital markets and place them under the proverbial mattress? Definitely not, and in my next column I'll tell you what I believe you're going to need to do differently as an investor from now on.

Stay tuned.

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