

## **Boomernomics: The Future of Your Money in the Upcoming Generational Warfare**

**Author: William Sterling and Stephen Waite**  
**Publisher: The Ballantine Publishing Group<sup>1</sup>**

**Reviewer: Barbara O'Neill**  
Rutgers University

Like a number of other books, including *The Great Boom Ahead* by Harry Dent, *Age Wave* by Ken Dychtwald, *The Retirement Myth* by Craig Karpel, and *The Pig and the Python* by David and Susan Cork, *Boomernomics* describes a good news/bad news future for the large middle-aged generation of baby boomers born between 1946 and 1964. The key message is that "demography is destiny" and that successful investors, not to mention boomers themselves, are well-advised to stay ahead of the age curve when developing financial plans into the new millennium.

The book is divided into three parts: Part I: "America's Prime Time" (the good news), Part II: "The Big Chill" (the bad news), and Part III: "How to Prosper During the Coming Age Wage" (the implications). The authors, both investment strategists for BEA Associates, an affiliate of Credit Suisse Asset Management, describe a "feast, then famine" scenario as 76 million boomers enter their peak earning years and then start retiring around 2010. They predict a dozen or so years of low inflation followed by "lean years" characterized by declining stock and home prices and high inflation. As the title suggests, inter-generational equity will become an issue as younger generations resist the taxes that will be required to care for elderly boomers.

In Chapter 1, Baby Boomer Demographics, Sterling and Waite predict that interest rates will remain low during boomers' peak-earning years, as they "compete" for savings, putting downward pressure on interest rates and driving up stock prices. They anticipate a Dow of 25,000 by 2010 and modest government budget surpluses and relatively conservative government spending policies. They also dispel the myth that boomers have begun saving in earnest. To date, this has yet to happen.

Chapter 2, The Technology Revolution, notes that the influence of technology has been understated. There will be explosive growth in electronic commerce, artificial intelligence capabilities, and "the economics of interaction" (i.e., searching and coordinating exchanges

of goods, services, and ideas). A huge productivity dividend is forecast as companies become more efficient, plus an even wider gap between rich and poor and less lifetime job security due to technological influences.

The Golden Age of Market Capitalism, Chapter 3, states that, with the fall of Communism and growing "emerging markets," there is a true global economy today. America is well-positioned to benefit due to numerous corporate "best practices," labor market flexibility, and technological domination. Employment trends will continue to be less favorable, however, for unskilled workers and those lacking college degrees, a trend the authors dub "Brazilification" (a widening disparity in income levels).

Chapter 4, The Coming Crunch in Residential Real Estate, begins "The Big Chill" section, which describes a period starting with the retirement of leading age boomers. The authors predict, not only inter-generational conflicts, but intra-generation battles, as wealthier boomers who had the ability and foresight to invest are taxed to bail out their less fortunate peers. During this period, real estate prices will drop with fewer buyers to buy boomers' homes. The predicted result: boomers will see their home equity seriously eroded in their golden years or be stuck in large homes that they no longer need.

With real estate a losing proposition, should boomers reposition their assets into stocks? Not according to Chapter 5, "Stocks and Bonds: The Long Liquidation," which likens boomers future choice between stocks and bonds to "deciding which of the murderous Menendez brothers you like the most." Again, the problem (as it has been for boomers all their lives) is supply and demand. Even before boomers start cashing out, asset prices can flatten simply when they stop investing (this has already happened with real estate). Drawing upon research by Scheiber and Shoven, widespread asset depreciation is predicted.

---

1. 1998, Hard Cover, 218 Pages, \$19.95. ISBN: 0-345-42583-9

Chapter 6, "Social Insecurity," notes that there is still time to "fix" Social Security. However, Social Security is not the big problem associated with aging boomers; health care is. As boomers swamp government "safety nets," the budget deficit will explode. Increasingly, benefits will be means-tested, thereby penalizing those who scrimped and saved. There will also "ethnicity issues" to face as increasing numbers of elderly Caucasians are dependent on young minority populations.

What should you do to prosper during the coming age wave? In Chapter 7, "Boomernomic Investing," Sterling and Waite make it clear that you should NOT immediately sell your home, put 100% of assets in stocks until 2010, and then cash out and head for the hills. What they do suggest is to "use demographic insights to tilt the odds in your favor." They suggest that middle-aged boomers with a moderate risk tolerance currently place 55 to 65% of assets in stocks, particularly in market sectors that will be impacted favorably by demographic trends. During "The Big Chill," the only place for investors to "hide" from asset devaluation will be short-term Treasury bills. Purchasing a retirement home now in a popular (e.g., sunbelt) location could also be a wise move, to get there before everyone else does.

Chapter 8, "Boomernomic Wave Watching: What Industries Will Prosper?," revisits the basic rule of boomernomic investing: "get there before the baby boomers." Products and services that are expected to be in demand include hearing aids, health care, travel and entertainment, golf, gardening, gambling, and financial services (e.g., mutual funds). Boomers will become less price-sensitive and more value- and quality-oriented and firms will need to adjust their marketing and merchandise mix.

"The Big Fix," Chapter 9, concludes that now is the time to face issues related to the age wave. The authors discuss Chile's privatized retirement system as a possible model. They also stress the need for "generational accounting" in government budget discussions so that politicians are forced to report how much of a tax burden they are placing on future generations. Market principles need to be incorporated into the health care systems and disincentives to work during retirement scrapped.

The authors draw upon dozens of demographic projections, research studies, and government agency reports to make their case. Their references are listed in a bibliography at the end of the book for the serious

student of baby boomer finances. If you're between the ages of 34 and 52, you'll especially relate to the content and be compelled to want to effect public policy changes and personal financial decisions that address "The Big Chill."

The intensity of the projected devaluation of financial assets remains to be seen. While it will certainly be difficult for baby boomers to find buyers for real estate (because buyers need to be local people interested in a particular location), this isn't necessarily the case for financial assets, which know no geographic boundaries. Money flows to wherever it will get the highest return, be it Wall Street or Tokyo or Brazil. In addition, boomers won't all be "cashing out" all at once. Instead, there will be a gradual spend-down. If the dire predictions hold true, however, the next dozen years could be boomers' last chance to earn high investment returns. Sterling and Waite urge their readers to make the most of it.