Transcript: The Coming Baby Boomer Retirement Crisis

Featuring: Raoul Pal

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Synopsis: In this hard-hitting Real Vision special, Raoul Pal presents the single most important financial topic of a generation – the Baby Boomer retirement crisis. He asks the hard questions: Can you afford to retire? How will the coming crisis impact your life? What risks are you unknowingly taking with your retirement? Moreover, will the insufficient retirement savings of the largest generation in history cripple the economy? Raoul also explores how savvy retirees might avoid — and even profit from — the threatening crisis. In addition, Raoul also offers a glimpse of a brighter future, in which smart millennials take control of their own financial destiny and sidestep the crisis.

Topics: Macro, Pension System, Retirement Crisis

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What's very comfortable now may not be so comfortable later on. That's when I might have to take out my mutual funds.

My only worry is my dad works for the state of Illinois. The state's pretty much insolvent. And even his health care, which is through the state of Illinois, it could take up to a year for him to get reimbursed for things like that, so that is worrisome.

**Justine Underhill:** Retirement is all some people ever think about, especially the 50-million-plus Americans set to retire in the next few years. They obsess over it, like my dad did. It's what they worked for. It's their dreams. But those dreams could be shattered. You're about to hear Real Vision's founder and CEO, Raoul Pal, explore why we're heading into a retirement crisis in America and around the world as many people take on more risk than they understand.

I was curious to see if anyone was thinking about this, so we spoke with people in New York and heard the same story over and over—people pushing off retirement, people not having enough savings, people relying on government pensions. Here's some of what they said.

No. No way I could have saved enough for retirement.

I mean, I have enough to retire, let's say, if I want to go to Wyoming or something like that.

I saved enough for at least the next 10 years. Who knows with inflation what will happen, but I feel the next 10 years, I'm OK.

If the United States government goes out of business, then my pension won't be there.

These stories were just a small sample of what we heard. And this is not just something that those actively looking for retirement are going to face. It's something that's going to have a big impact on my generation as well, whether it's figuring out pensions, or social security, or potentially supporting our own parents'. Retirement is part of the promise of life in the developed world. And if that promise isn't met, it's really going to affect everyone, whether you're hoping to retire in 5 years or 50.

**Raoul Pal:** My name’s Raoul Pal. I'm the CEO and co-founder of Real Vision. But today, I'm talking on behalf of Global Macro Investor, my research business. I want to talk about what I think is the biggest, single theme of our generation. And I think it's the most important thing that anybody can understand. And it's all about the pension crisis.

You see, demographics is the big story of our time. And it's all about the story of the baby boomer generation. This was the largest generation of people the world had ever known in the richest countries in across the globe. Now, that generation drove all of the macroeconomic forces that we come to recognize as normal.

When they first came into the labor force back in the 1970s when they 20 or so years old, what they did was they bid up the demand for goods. Because if you think about it, a record number of people came in to buy their first suits, their first house, their first car, their first table, their first chair. Everything was new. That demand created an enormous problem for the world to deal with, and it created the inflationary environment of the '80s.
Yes, there were monetary reasons behind that as well. But really, a lot of it was driven by demographics. Now, as that generation moved through their lifetimes, they had a particular set of behavior patterns that affected the financial world particularly. The main one is the fact that after the second World War, that young generation decided they didn't want to be their parents, as almost everybody does. And they said, we don't want to be austere.

Their parents had lived through two world wars. What they wanted to do was spend. They wanted to be free of the shackles of the things that their parents had had in the past. So what happened was Wall Street, being clever as ever, came up with this genius idea. It was the pension plan.

Now, pension plans had existed for a long time before. But really, this is where the pension plan became everything. Wall Street fed them a story. The story was simple. You don't need to save as much money as your parents. You don't need to spend or save 20% of your income. What you need to do is give it to us. We're the smart guys, and we'll turn into more money. And that means you'll have more money to spend.

So that started the largest stock market boom in all of recorded history. Now, the other thing that happened is as consumption became a larger part of the economy—and that was driven by government policy as well—is the baby boomers were offered another piece of magic from Wall Street. They were offered credit.

So in the '80s, Ronald Reagan and Margaret Thatcher basically allowed credit to be available to everybody. So suddenly, the credit boom took off. So there we have two monetary booms happening at the same time. The baby boomers have stopped saving, have given a little bit of money from their 401(k)s to Wall Street that starts accumulating quickly. Their income has also then gone into credit, the servicing of credit to buy more and more goods.

That trend continued for a long time. The trend of consumption within the US economy continues to this day. It's massively outsized because of this credit boom. That meant that Wall Street became outsized too. It was taking the money from the pension system, and investing that—or speculating with it—and also making money from the credit side. Now, that all ended in a complete blow up that happened in 2008.

But why did 2000 happen? Well, interestingly enough, that's when the first baby boomers started retiring. When they started retiring, suddenly there were some sellers of stocks. Before that, everybody had been buying stocks every single month in their 401(k). Buying-the-dip mentality became the key thing for the world.

But the problem is now we're facing the demographic time bomb. I remember when I was back at Goldman Sachs in the late '90s. Some of my colleagues wrote an article called "The Demographic Time Bomb." And that was about the issues the world will face in the future as retirees start retiring and whether the state sector could afford all of the draw on the capital.

Now I'm not going to talk about the state sector in this particular presentation. We all know the story that there's too few millennials and younger people paying into the system to pay for these retirees. The maths don't add up, so the entitlements can explode. And these numbers can be in the hundreds of trillions of dollars. But I don't want to talk about that.

I also don't want to talk about the defined benefit pension system. That's another big story that I think
many of you are aware of. We’ve seen it all across America and all across Europe into the UK where defined benefit pension schemes will never be able to afford to pay out the promises that they had to the retirees.

You see, the returns in financial markets weren’t quite as good as the snake oil salesman on Wall Street told everybody. And that was a problem. It’s kind of like a Ponzi scheme. The first people to get out made all the returns. The last people to get out get nothing. And that’s the real issue. The real issue is all of this is coming to a head because everybody is about to retire.

If you look at the chart of the baby boomers reaching retirement age, you can see it’s a demographic wall. Currently we’re retiring at about 3.9 million in America alone, baby boomers. And it goes up in a straight line all the way through to 2027. What we’ve got is more and more people, every year, retiring. That is an extraordinary state of affairs because retirees have a different behavior pattern than the average person.

You can see the chart in a different way here. You can see that the average retirement age is currently around 64 in America. And this year, 2018, the average baby boomer is 64. It’s telling us the average person is destined to retire this year. But the real question is here— who can afford to retire?

You see, if we look at the retirement age of Americans, the actual retirement age is going up. And those who haven’t retired, they’re deciding that they’re going to have to work longer too. You see, the real issue here is that people can’t afford to retire. So they’re having to extend retirement— either expected or current retirement dates— out into the future.

It’s this problem of not being able to afford retirement that is creating the problems we’ve got today. The other way you can look at this is when we look at the labor force participation rate of the people above 65 years old. Oddly, the 65-year-olds have been coming back into the labor force at a record rate. They’re competing for jobs with millennials and others.

This is an odd state of affairs. And, again, is driven by the issue of these baby boomers having far too much debt to retire and not enough savings. So let’s drill down to the numbers. It’s really important to understand the numbers behind what I’m talking about. So let’s dig into the stats.

See, the US average pension benefits are $23,000 a year. But there’s a bit of an issue because disposable income per capita is $44,000 a year. Now, the ideal retirement income that these people want obviously matches their disposable income, which is about $44,000 to $45,000 a year. But really, when you impute from their savings, what they really get is another $9,000. So their total benefits are about $31,000 versus their needs of about $45,000. This is a huge problem.

There’s a 30% shortfall in their savings. And that has to come out of consumption. I think many of you have seen this before. It’s the household net worth, the average net worth of the American household. And it looks pretty good, right? They’ve got $24,000 in bonds. Americans don’t seem to like bonds, and that’s something I’ll talk about in a bit. They’ve got $269,000 of equities, $300,000 of real estate, savings of $107,000, pension fund assets of $264,000, and other savings and assets of about $120,000.

Now, that’s a pretty healthy million dollar balance sheet, so what’s the problem? The problem is it’s massively skewed by the 1%. That 1% that we hear about versus the 99%, well, they’ve got all the assets and all the savings. When you strip out the data for the 1% and calculate the median net worth, it’s an
entirely different game.

The median net worth offers something that I think is terrifying and sad. The average person has $4,000 in their bonds. They have $45,000 in equities, $53,000 in real estate, which is extraordinary, right? That is all they have after their mortgage is $53,000 for a lifetime worth of household investment. They have savings of $18,000, pension fund assets of $44,000, and other assets of $20,000.

You see, the problem is these people are benefiting from one of the biggest shifts the world has ever seen—life expectancy. Life expectancy, although it dropped a couple of years running recently in the US, is rising. So life expectancy in America, and across the world, is in an exponential trend higher. It is going higher and higher every single year. Obviously, the last couple of years were the opiate epidemic saw a bit of a pullback.

But generally, the average American doesn't know how long they're going to live for. It's going to be longer than they thought. You see, not knowing how long you're going to live for changes your behavior pattern. It means that you start pushing out your retirement date because you don't have enough money to retire. Because if you've moved your life expectancy on 5 years, well then you need a lot more money.

In a low-interest-rate environment, it becomes almost impossible to generate the income, so you're drawing down on capital very, very rapidly. So let's look at this balance sheet to see where the capital really is. Now, what have to understand is US households have really taken on board the fact that they're going to live longer, and they don't have enough savings. Because after 2000 and 2008, the world hasn't generated enough returns.

So what they've done is taken the most amount of risk possible. Normally, if you're about to retire, you should be increasing your fixed income allocation to guarantee your future retirement income. However, behaviorally speaking, if you don't have a high enough income to retire on, you have a kind of shit-or-bust scenario. What you have to do is take that risk.

That risk, for American, is buying real estate, and they did that in droves back in the 2000s. Now, they got burned in that, and they don't have much net worth left in that any longer. So the real driver of net worth has been the equity market. The equity market is the only driver of net worth going forwards, and this has meant that people have doubled up their bets and tripled up their bets.

They have this bet directly in equities, and they have this bet in their pension plans. The pension plans themselves have record holding of equities versus fixed income. They also have record risk in terms of credit. Private equity, venture capital, hedge funds, they all have equity-like returns. They're risk-seeking investments.

And they're doing this because nobody can fund their retirement. It's the same story at government level. It's the same story at defined benefit pension level. And it's the same story for households and their 401(k)s. Corporate pension plans, they're all the same—nobody has enough money to fund retirements. So everybody is taking the maximum risk.

Now, in a rising equity market, this kind of makes sense. You're clawing back some of the ability to retire. But if things change, the picture gets a little bit worse. You see, the one bet people are taking is they're actually putting the maximum allocation in all of recorded history, across the entire system, into risk-seeking, equity-like assets when equity valuations are off the charts.
You see, when we look at the chart of the median price revenue of the S&P 500, we can see it's at all time, ridiculous, record highs. We could use any measure. I just used this chart because it's the most dramatic. But we can use the P-ratio. It'll be the second most overvalued market in history. The median P will be the most overvalued in history. Market cap to GDP, the most overvalued in history.

We have an extraordinarily overvalued market. Now what's the worst thing about this is that there is a record over weight of equities. Nobody has owned this many equities or equity-like instruments—risk-seeking instruments—ever before when the valuation is so high. That is a dangerous setup.

You see, the real problem here is it's all about the business cycle. The business cycle, as you know, ebbs and flows. You can see it on the chart here. It goes up and down, and it's relatively predictable—within some boundaries. But what happens is a peaking, booming economy eventually gives way to a recession. And they come along periodically—every 4 to 8 years. Now what's interesting about this expansion is this is the second-equal, longest expansion in all economic history.

And by next month or the month after, this will be the second longest outright. So what that tells you is there is a probability that this expansion has to end at some point. Could it roll on for another couple of years, 2 or 3 years? Of course it could. Could this end up being the longest ever expansion? Of course it can.

The point being is the clock is ticking, and it's moving towards the next recession. Now, normally, that's no big deal. But this time, it's a bit different. You see, in recessions, the stock market generally crashes. That's normal. Companies earn less money. Investors fear worse outcomes than are expected. And the market sells off massively. And over time, it has had a tendency to recover.

Well, again, that's a bit of a recency bias. Because all across Europe and other markets around the world, things never did recover. And why didn't they recover versus America? And that's because the Americans have a cult of equity, and the Europeans tend to have a cult of bonds.

So Europeans basically gave up on the equity market. The structure of the pension system there means that they own much less equities. They're about 70% or 80% in bonds for this particular cohort. The Americans are the opposite. They're about 70% in equity and equity-like instruments. They're taking huge amounts of risk.

Now, normally, in America with this risk seeking culture, once the equity market falls, the 401(k) payments come in as everybody's income starts filtering into the stock market and acts as a break and helps the market rise. The problem is the next recession is going to cross the exact point that the maximum number see, the real problem here is it's all about the business cycle. The business cycle, as you know, ebbs and people are going into retirement. This has never happened before anywhere.

What it means is that all of the life savings that are in equities, which is basically 70% of the entire household balance sheet is going to get wiped out in one recession. And they won't be able to buy back because they won't have an income to buy back. This is the biggest problem I can see in the world today, and nobody really understands that juxtaposition between the business cycle, risk taking, and demographics.

It's this Nexus that makes me so concerned about what is going to happen to this baby boom generation unless somebody tells them about the risks that they're taking. Wall Street doesn't want to tell them. The
asset management firms don't want to tell them. The TV companies don't want to tell them because everybody's cashing in on the same boom.

Just look at the amount of advertising based around asset management and this industry. It's terrifying to be pushing people in at this peak. It's OK to trade and invest. But if you are of retirement age, you should be cautious. If you're a millennial, you should be the opposite of cautious. You should be waiting for this opportunity. So there's behavioral mindset that needs to take place, but there's more to this.

You see, demographics also tell us where the economy is going to go in the future. And the reason being is that a number of things are correlated to demographics because people of a certain age generally act in a certain way. That's not to say all generations and all the age groups act the same. But overall, a retiree will spend a lot less than somebody who is in the peak of their earning career.

I always use the example of my father. When my father retired at 60 years old, he was the kind of guy where we were lucky enough to buy a new car every 3 years, and it was a fancy German car. And he'd have nice wine in the house and go out for dinners all the time. Cut forward to retirement, suddenly he had his fixed investment pull. That's what he had to live off. He didn't know how long he was going to live for, and he didn't know what the cost of living was going to be.

So what does he do? Pull on the handbrake on his spending. Cut forward 5, 6 years, suddenly, I would say he's spending 60% less than he used to spend in a year. Now when you multiply that out across the entire baby boom population, you've got a dramatic economic event, and there's no getting around that. This is kind of baked in the cake.

Let me show you some charts about how demographics tie into the economy. The first chart is the unemployment rate versus the labor force participation rate. Now the labor force participation rate is key because it's really how many people are earning in the labor force to drive the economy.

Now what's interesting is people have said, oh, look at this. It's amazing. The US economy is generating so many jobs. Well, it's kind of odd. The unemployment rate is low, but the economy has not generated anything near the number of jobs that it has done in previous cycles. Why is that? It's because people are opting out of the labor force. So it's naturally driving down the unemployment rate because the labor pool is shrinking.

So it's a bit of an old indicator. This is exactly the reason why the Japanese have had an incredibly low unemployment rate over the entire time of their lackluster, post-demographic, crash economy. It's one of the reasons why the European unemployment rate has come back sharply. It's because of the fact that people opt out of the labor force.

Now in America, it means that we should expect the labor force unemployment rate to fall and fall. Now that's interesting, and many people say that's inflationary. But it's not because of the number of people competing for those jobs or deciding to opt out. Anyway, let's look at some more charts to build more of a picture.

As I talked about, the thing I really fear the most in this whole equation is what happens to spending rates. You see, the spending rate, the personal consumption rate, basically follows your age group. You spend in a predictable pattern. Yes, I know. We all think we're individuals. But we're actually not.
We all basically do the same thing as people of our age, give or take the parameters of which we earn and some of the other behavioral aspects. But really speaking, consumption is based on age. And what happens is the older we get, the less we begin to consume. That kind of makes sense because you bought most of the things you need. You tend to buy larger, big-ticket items—holidays, cars—when you’re older if you’ve still got that kind of income before you retire.

You see, if you’re a bit younger in peak earning, you tend to buy more things for your house. You know, you might buy yourself better bed coverings, or a new bed, or go to IKEA a bit more often. You tend to buy yourself a few more luxuries. You tend to spend a bit more in the supermarket. And that’s normal. Everybody does the same thing because you’re at peak spending.

But when you get older, you tend to buy less of those things. You tend to buy more big-ticket items. You might buy a nice car. You might buy a nice holiday. But you’ve got most of the things you actually need. You’ve accumulated them across your lifetime, and your consumption goes down.

Another fascinating chart is you can see gasoline retail sales also exactly mirror the labor force participation rate. Now why the hell is that? Because basically the older you get, the less you consume gasoline. You drive less. Again, I can use my parents for that. They used to drive everywhere. They live in Spain, and they would drive across the country to go and see the place. But the older they got, the smaller their circle got. And now, basically, they go to the local supermarket, to the local bar, to the local restaurant.

So their mileage goes down. They just consume less gas. They’re not running around as much. So interesting enough, the whole of the petrochemical complex is tied to demographics. I bet you didn’t know that. Also, monetarist talk about the velocity of money. And it’s a key indicator for inflation. If money is moving around the system, it tends to be more inflationary. It kind of gets around the system a lot more and creates inflation.

Now the problem is velocity of money is essentially a demographic phenomenon. The older people get the more they save and the less they spend, and the money doesn’t go around the system. They’re not reinvesting in things. They’re not spending as much. And like consumption, it tends to fall over time.

So they’re basically a function of each other, and I think that’s really important. You can throw in the low interest rates into this. They’re all interconnected and tend to drag down velocity of money, tend to drag down the labor force participation rate, tend to drag down consumption.

Now I want to give you something new to think about. Most people think about the Fed as this desperate attempt to keep the system as is and not let the banks go under, and they didn’t really understand why they were doing what they did. Now what happens if you look at the Fed balance sheet through the prism of demographics and it becomes entirely different?

Basically, the balance sheet almost exactly mirrors the labor force participation rate. The Fed is taking the slack for the retirees and people leaving the labor force. This is all they’re doing. They’re trying to offset this. Now, whether they are cognisant of doing this or not, this is essentially what they’re doing. It’s so fascinating, and it makes total sense to me.

What I love about demographics is you can essentially extrapolate forward the demographics of a nation because it’s baked in the cake. When those people are born, you kind of know when they’re going to
die, roughly what they're going to do, and how they're going operate within the economy.

So Remi Teuto and myself, Global Macro Investor, put together a composite index of how are we to construct a participation rate using a number of different statistics. Now what's interesting is it mirrors the data pretty cleanly, so it us a good idea of where we think this is going. And then we can look forward and see where it goes, and this is where things get ugly.

You see, because of the demographics, the labor force participation rate is about to fall off a cliff. Yes, there's a bit of wiggle, but 2018, 2019 is we should see a collapse in labor force participation. Now, obviously, that kind of makes sense. I've told you that we're hitting that point where the retirement age and the average age of Americans are crossing. So they're going to start this wall of retirement.

Now that means that people are coming out of the labor force, and that has some big knock-on effects that you need to be aware of. Now armed with our future labor force participation rate, we can look where the Fed balance sheet is going to go. The Fed balance sheet here is inverted. It's saying it's going to go to $8 trillion dollars.

What's interesting is, again, how great this fit is. And think of the prism I talked about of the business cycle. At some point soon, we're going to have a recession. And soon meaning 1, 2, 3 years. Now what we know in the recession is we have no other outcomes except the Fed expanding their balance sheet. We've not come up with another way of dealing with this yet.

Yes, there's going to be fiscal stuff. Yes, there's going to be other untried measures. But the Fed are going to expand, whether we like it or not. So this will lead us to expect a massive expansion in the balance sheet to come to offset this wave of retirees. Again, what's interesting is a bit of economic history because Japan has an older population by 10 years. So if we look at the BOJ balance sheet and look at the Fed balance sheet now as a percentage of GDP and put them against each other, it's very clear where this is going to go.

It's telling us we're going to see an absolute explosion of the balance sheet as a percentage of GDP over time. Now I'm not going to get into the ramifications of that. It's something we've discussed on Real Vision a lot. We kind of know it's coming, and there's a number of ways it will get dealt with. But the point being is that demographics are pretty much dyed in the wool right now. And if they're dyed in the wool, then we know where personal consumption is going.

Personal consumption is going to unwind the great boom of the last 30 or 40 years where consumption became over 75% of the US economy. Consumption is going to shrink as a percentage of the economy, and consumption itself is going to go negative. Now that is something nobody is set up to understand. Can you imagine a world where consumption is the net takeaway from the economy and not the driver? That's what we're setting up for.

This is something truly extraordinary. Now, again, go back to the big cycle. To drive consumption further, you're going to have to ram the millennial generation with enormous amounts of debt to drive consumption and offset some of this. But they don't want to do that. They're already saddled with debt from their education. So they don't have the ability to do anything about this. They also don't earn enough. They're not offsetting the same amount of wealth as their parents.

There is a mismatch here, so don't expect the millennials to save the day. There is a mismatch of an age

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gap. It will come out eventually, and I'll talk a bit about that in due course.

You see, the equity market is also a function of demographics. Now the chart's are a bit noisier because equities are a much noisier instrument than most others because they’re built on fear and greed, almost more than any other asset class. But equities should follow the returns offered by the labor force participation rate. An aging population obviously needs to sell equities to realize income to retire and live off. There is no way around that situation. They will have to sell equities, and they will sell as many equities as they can into the next recession because, behaviorally, they need to protect themselves.

They will become more risk adverse than any generation in history at that point when the recession comes and the market sells off. It is just tied in to human behavior, and that means that the returns on the S&P are going to be somewhat problematic. And not just a sell off and a rally back afterwards, but a more extended downturn in the future returns of equities and potential, long-term, compounding, negative returns, which is something many other countries with aging populations have seen. But the US has not seen it yet, and doesn't believe it can happen.

If you think all the things I told you about consumption, about gasoline sales— I've told you about what's going to happen to equities— what that also means is inflation is almost impossible to generate. It's impossible because people cannot consume enough. The millennials do not offset the largest spending generation of all history.

So what you get is a falling of inflation. This is why I'm a dyed-in-the-wool reflationist, and I remain so until something dramatic changes. Sure, we could see the end of globalization, and maybe that could change the structure. But I think the slow decline in globalization is not going to do that. So I fear that this incredible fit of inflation and the births as a percentage of the total population— i.e. the aging of the population— is going to hold true for a long time to come.

And that means people have wrongly allocated in risk-seeking assets versus bonds for example. It just makes the world understand that fearing cash is not the worst thing. You see, CPI really is just a reflection of births as a percentage of the total population. I.e. the less people are getting born, the less inflation is going forward. So that's the whole trend going forwards. And it says inflation's not coming back.

It's not something we should fear. We shouldn't fear bonds. Yes, there is some elements of inflation, and we're not going to hide from the fact that inflation's strangely calculated. And that certain things have seen huge inflation, such as rents and health care. And other things have seen huge deflation, such as the price of Real Vision. But there's a number of things that balance that out, and you've seen the Million Prices Project. It tells you that broad inflation is not really there, and it is driven by this phenomena of age and demographics.

So this is why this is the biggest story in the world. We have the richest generation in all history, by all measures, but with the median person with no savings, with too much risk-taking investments, way too many equities versus fixed income or any other investment— and certainly over cash— at the point in the business cycle that is getting mature and we're waiting for the next recession to roll along.

When that recession comes, it's going to half equity prices— or more. This is the most overvalued stock market in history. And therefore, we should expect the price of equities to fall significantly. That leaves a huge hole in the balance sheet of all of those people, the biggest group on earth ever to retire.
They won't be able to buy equities to buy the dip. They'll have gone. The gen-xers and millennials can't afford to buy that dip. This is a huge risk to the largest generation of all time. And it's something people need to be massively aware of. You need to think really hard about the risks you're taking this late in the cycle.

I completely understand you might not have the money to be able to retire. But it's better to have what little you have now than have half of this later. It's something you really have to think about.

Now many of you will think about, well, how are the government going to stop this? And how the Federal Reserve going to stop this? And they will try because they have to. And this is where some of the problems lie. If you believe in free markets, the right answer would be for that baby boom generation to pass their wealth on to their kids, either via inheritance or by transfer of assets at a low price that the kids can buy.

So that's the accumulation of equities at lower prices that the baby boomers had in the '70s and '80s. Particularly in the early '80s when they really started buying equities, Ps we're below 10, 8, 7, 6-- a lifetime opportunity. The millennials faced with the same investing set right now have an all time record over evaluated stock market, an all time record valuation bond market, all time overvalued real estate market. They have nowhere to invest that has a positive rate of return over the next 5 or 10 years.

It is a stupid point for them to invest. What they need is lower prices in all of these. The baby boomers should supply it in a free market. But it's unlikely to happen. The Federal Reserve are like to step in the way and increase the balance sheets I showed you. They're likely to be buying stocks, buying pension assets, stopping those pension assets go plummeting.

Now that means that the stock market gets supported. The Fed start owning the equity market, exactly as the Japanese have done. But it means that the young generation can't buy them because they're too expensive. What happens to the real estate market, is that the clearing mechanism-- possibly. Or do the baby boomers and millennials end up living together? I think that's the most likely outcome.

That's what the pre-war generation did, and that's maybe how this will all end up is we have larger households of more household members. And I think that would make certain sense to society, and would free up a bit of savings, and would help counteract the loss of savings that the baby boomers are going to have. You see, this is a really tricky world to navigate. And I think you really all need to think hard and fast about what you're going to do and the plans you have.

There are also financial market people that said there are opportunities in this. Although, it makes me feel a bit grim to say there's an opportunity in what I see as the biggest crisis a generation has ever faced in financial terms. And it's not a bank crash. It's a systemic loss of savings from everybody.

But there are opportunities. Because, you see, once you understand the world through a behavioral standpoint, you understand that different people faced with different issues will behave differently. And that means they will change how they spend. We've already seen this in the restaurant sector.

As the baby boomers are moving towards retirement, they're starting to spend less in restaurants. Restaurants have really struggled in recent years. They've been firing people. They have had less profits than they’ve seen for a while. They've been in and out of recession. We've seen it in a number of consumption areas within the economy that there is a problem as these people are starting to finally save as much as they can before they go into retirement.

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But it does mean they'll do certain things. And I call this Boomerville. It's the world to understand when people retire. You see, go again back to that chart of the net worth of the median household. They have $53,000 in their house. So are they supposed to sell their house? That basically gets them to live for another year and a bit. Don't forget, they wanted $45,000 a year. The house only gives them $52,000 of equity.

So with this so few savings and this little cash, what will they do? Well, you see, there's a different consumption pattern that's going to come. And it's a slightly grim consumption pattern. If you also think about why the middle of America was so pissed off is because they didn't participate in a lot of the final stages of what is going on. The closer you are to that median person, the further away you are from any boom.

And you see, if we understand how those people live now— the really neglected from society— it is actually the leading indicator of where many more people will need to go. And that's sad. It's going to increase, probably, populism within the economy and certainly a bifurcation of politics even further than we've seen today because it's going to be tough on people. Dining is going to go towards fast food.

It's still sadly true that it's easier and cheaper to get food from McDonald's than it is to cook yourself. That hits supermarket sales. That hits a number of people, particularly the restaurant industry. But it keeps fast food sales ticking along nicely. It's the cheapest way for the masses to afford to eat, and that's not good for the overall health of the population.

It could, actually, reduce the life expectancy of the population too and continue to drive the obesity epidemic. It's really not good. Now if you think about the $52,000 in the house, well, that basically gets you to buy a trailer park. Now trailer parks become very interesting for people because they can get rid of the debt around a house, own the assets of a trailer park, and release some cash.

So owning a trailer is a key thing. Now, trailer parks, I think are already high yielding investments. You can get basically 18% returns. And there's a listed trailer park business owned by Sam Zell that I think is an interesting play here. There's a number of ways of playing this downsizing of housing. But it is an important feature that's to come. And again, it's less of the Mac mansions and the other things that we saw in 2007. It's just anybody trying to realign equity from their regular homes.

The other thing are cars. Nobody is ever going to buy a new one again, none of this generation will. They will keep onto their car as long as possible. We saw this a long time ago in Germany where your average car turnovers were every 3 or 4 years people buy a new car. It then moved to 8,9, 10 years.

It's my father. You know, that guy, my dad, hasn't changed his car for the last 15 years now. That is going to be very common. The used car dealership market, yeah, that's OK. It's not so bad. But still not good because people are still not buying as many new cars.

There's a big problem. The entire world is betting that China is going to take up the demand from the baby boomers. I'm not so sure about that. What we do know is the millennial generation currently is less interested by cars. So they're more likely buyers of secondhand bangers than they are buying new cars. They don't see the status symbol involved that older generations did.

But anyway, the point here is the consumption pattern of America and Europe is changing, and it's going to change dramatically. That's going to change the investment philosophy and where you could hide in

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the stock market that's going to be under stress or where you can find real opportunities.

I do think that it is going to drive bond yields lower. I think most of you know my view on bonds. Unless something changes, demographics will trump all. The other thing we need to think about, many of us watching Real Vision, is we are part of the financial industry. You see, the financial industry was one of the biggest secular booms of all time.

It was driven by this baby boom generation. When they took on debt, it created an enormous amount of opportunity and a swelling of the financial system. When they invested in pensions and the 401(k) system was created, it created an asset boom that spread. That asset boom, between those 2 building blocks, went into the hedge fund industry. They went into the private equity industry, the venture capital industry, the real estate industry.

Everything we understand as the asset management industry was driven by these people. And these people are going to take their money out. That is an enormous change and the final return to trend for the economy and its outsized financial industry. We're all seeing it in the financial world. We've all seen the banks shrinking. We've also seen things like the robotization within the industry and the changes taking place.

We've seen the disruptors, the vultures hanging around the system like Bitcoin, Ethereum picking at the carcass of the financial industry. It's true it's going to change. Now, it will adapt. Some of the smartest people in the world are in that industry. They will adapt. They will change fast. Looking how firms like Goldman are adapting their business model is breathtaking in its speed. It's at startup speed change that they're doing stuff.

But there are other things that are going to happen, too. All of the people in the industry are going to have to think, how do I get the millennial? And how do I get them to invest their life savings? Now, they're right. They need to invest savings to save for their future. But they were wrong in how they made it before. They made false promises to a generation of which they couldn't keep.

This time around, they get to wipe the slate clean. Or they get to defer the blame on somebody else. Let's call it the robo advisors. It's not our fault. The algorithm gave it to us this way. So that's something we need to think about. And the industry needs to manage that messaging unless it wants to get held to blame again some point down the future.

But the real opportunities may lie with the future of the financial industry. Again, if you remember, this millennial generation is faced with the all time record valuations of equities, bonds, real estate, private equity, pretty much anywhere. There is no opportunity for them to buy assets. Yes, of course, you could buy gold. That's cheap. Some commodities are relatively cheap. But commodities tend to be more cyclical than secular, and that becomes somewhat of an issue when you're trying to build long term wealth.

The right answer is for young people to build businesses. The startup culture is exploding. This is incredibly important. This is the structure of the future economy. If you can shift from a financial economy to an entrepreneurship-based economy, you'll build an agile, nimble, and developing economy that looks for opportunity and generates GDP growth. It may not employ as many people. That's fine because so many people are leaving the labor force.

So I'm really encouraged about the startup and entrepreneurship culture that's generating around the
world and resonating everywhere from the Middle East to India, from America to Berlin. It’s everywhere, and I love that.

The other thing is the crypto space and the blockchain space. Now, this is slightly contentious, but it’s something I’ve been mulling in my head. If you think about that problematic allocation to all of the other assets, and you have something like a cryptocurrency or a set of cryptocurrencies, or even ICOs— and I know most of them are complete scams. But there are some that are good. And the world will change. And they will get regulated, and will be some amazing opportunities.

Now if said the future expected return from a cryptocurrency over the next 30 years is zero or a million, and we’re at— let’s use Bitcoin as the example— we’re at about $8,000, $7,500. Well, then, as a millennial, you’re basically faced with the same fact set that you had in equities back in 1982 or in bonds back in ‘82. Was inflation going to be there forever? Or was the 18% returns you were given in bonds exceptional? Was the P of 6 meaning the cult of equity was dead? Or was there a long-term opportunity in America and the global economy to revive itself?

I think crypto is here to stay. The blockchain development will come. I think the ICO market will develop to be rich and deep, and as large and as important as the equity market is now. It will be like the credit markets. It’ll be an ancillary, a big part of the financial market.

So if you’re looking for the future, and if you’re looking for where the money will be in the future— where life savings will go— it’s going to be there over time. Now, I’m no crypto bull right now, but I can understand something with a risk-reward that is attractive to somebody now who wants to create a saving for the future.

So I just want to leave you to think about all of the things I’ve said. There’s a lot to digest here, and I’d really love your feedback on this topic because I think it’s misunderstood. But it is the single most important topic in the world today.