

The Sound Investor Series #25

Thanksgiving – 2005

By Ed Hynes, CFA

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I love Thanksgiving. It is a very American holiday and a time to spend with family and friends to just, well... be thankful.

We can only imagine how the Pilgrims felt on that first Thanksgiving. After a harrowing voyage across the Atlantic, they survived their first winter and had just completed the first harvest. It is easy to understand how truly thankful they must have felt.

It is also easy to imagine that by the end of this happy feast some were apprehensive about the future. How to protect their families and cope with the approaching winter? Was there enough food & fuel to make the winter bearable?

Just like the Pilgrims, as we give thanks, we need to think about the future. While this upcoming winter will be difficult with higher energy bills - the “Big Picture Future” we really need to worry about is retirement. Will there be enough money for food, medicine and shelter?

Dealing with retirement is a relatively new phenomenon. Until the Industrial Revolution people stayed on the farm and lived in multi-generational households. No one ever retired! If you could keep working, you did. Safety was a large and healthy family.

Today, many consider retirement a god-given right. Unfortunately, for many baby boomers and the generation X's and Y's, it is clear that the “Golden Retirement Era” is over. It is vanishing for many reasons and will not reappear any time soon.

The “Golden Era” was built on a three-legged stool made up of Social Security, pensions and savings. But as we stacked more people and benefits on the stool, its legs got weaker and started to buckle.

Social Security continues to operate although we all know its foundation is faulty. The program works as a pay as you go system and it has fewer and fewer workers for each retiree. As America ages this will be more and more of a problem.

Traditional pension plans are dropping out of the picture altogether and most employers do not offer them anymore. Even for workers covered by a pension there are problems. Managements and unions have been playing a game of “don't look, see or hear” about the future benefits they have promised. It was easy for unions to ask for retirement benefits

and for managements and politicians to acquiesce to those demands since no one at the negotiating table had to be responsible for what they promised in the future.

Disappearing pensions were supposed to be replaced by 401(k)s and IRAs, but these plans are not working and need revamping.

The savings leg of the stool is in the worst shape of all. Americans have stopped saving. One reason is that we appear to be intoxicated with real estate wealth created by the current bubble. What are we thinking?

Baby Boomers have some tough facts to face this Thanksgiving. In a few years when the first boomer couple turns 65, there will be a greater than 50% probability that one of them will live into their 90s. If the couple wants a high likelihood of not running out of money, they can only spend 4% or 5% of their saving in the first year. If they have a half a million dollars in savings, that's means only \$20,000 to \$25,000 a year, pre-tax.

Couples need to get better at planning and working together on these important issues. If you are the one who normally handles the family finances, it is your duty to discuss plans and potential problems with your spouse. If you are not the one who handles the money, it is your responsibility to understand and help your spouse implement your financial plans. Claiming you didn't know about your finances will not help you pay the bills when that cold winter wind blows.

Happy Thanksgiving!

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