

BEACON INVESTMENT MANAGEMENT

THE FRIDAY BRIEF

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The Baby Boomers!

The party's over, the bills are due, and the place is a wreck. Years of excessive you-name-it have brought the global economy to the brink of ruin. Perhaps the "boom!" in the Baby Boom generation will define it. Everything about it has been noisy and big. Moms of this generation had the new how-to guide in Dr. Spock's *The Common Sense Book of Baby and Child Care*, which was second only to the Bible in sales.

Growing up was anything but quiet and normal. Hair was too long, music too loud, and hips swayed too much in dance. It was a generation that openly and loudly questioned authority at every level and at every opportunity. Our capital resembled modern Baghdad with machine gun-toting National Guardsmen defending it from Vietnam War protestors. Boomers were just as passionate for civil rights and the environment.

As the boomers moved into young adulthood in the mid to late 70's and began setting up households, huge demand for houses, cars, furniture, and golf clubs sent prices through the roof as producers failed to keep up with demand. Double-digit inflation reigned for years. The more stuff the better was the boomer mantra. There were six stock market corrections from 1970 to 1987 (-36%, -48%, -19%, -17%, -27% and -34%). It took Paul Volker's heavy Fed hammer in 1987 to bring it all down with a crash on October 19, 1987.

Then came the technology boom ushering in a new era for humankind – the Information Age. Computers moved from a huge air conditioned complexes to desktops and eventually to laptops and PDAs. Boomers and their kids couldn't get enough of them. But soon we discovered a problem. It consumed everyone's attention in 1999. Seemed if your computer, refrigerator, coffee maker or airplane, had only two digits to store the year, you had, we all had a problem. You had better shoot it and go out to get a new one, and you had better do it fast or life as we knew it would cease to exist at 12:01 AM January 1, 2000.

Wouldn't you know another pesky bubble inflated as everybody bought those new computers and the software needed to run the. Al Gore's Internet made it possible for computers to be linked to one another. The advent of the World Wide Web made it possible to post vast amount of information and to even buy and sell things. High paid computer execs quit their jobs to open companies on the new web with cute little names ending with .com.

It was good times and the old rules didn't apply. Some worried about the lofty heights of the market, but since the Y2K bug didn't get us, maybe the tech boom will go on forever. But as bubbles go, it went boom. On March 14, 2000 the NASDAQ index, home for the big tech companies, imploded obnoxiously and steadily for 31 months. The index declined by 76% before it bottomed in mid-September 2002. It has yet to return to its 2000 highs.

The 00's have seen so many once-in-a-lifetime events that we have almost become numb to the less sensational. The terrorist attacks of 9/11 killed 3,000 Americans and stands out among our country's most horrible and despicable events. Millions of people all over the world watched on live television the sickening story unfold.

Our economy survived and began to grow again, but not without additional shocks. Soon after 9/11 we engaged in two wars in the Mideast. Additionally we have suffered numerous natural disasters including record-breaking hurricanes that wiped out New Orleans and floods that ruined much of the nation's corn production along the Mississippi river.

Still the American consumer kept on buying stuff and China and Korea kept on making more. Global credit seize-ups followed with the failure of hedge fund Long-Term Capital, the Russian debt default, and multiple crises in Asia. Through it all the Federal Reserve pumped billions of dollars into our economy and took rates to the floor to keep us buying – and buy we did.

In its efforts to keep the economy going in the more recent past, the Fed unintentionally over stimulated it. The low rates encouraged people on Main Street after refinancing their mortgages to begin buying and selling house much like the day traders of the 90's did with stock. We saw large flows from stock portfolios go into real estate. The bubble began inflating.

On Wall Street the 'innovators' figured out new ways to make money as the steady flow of new mortgages started picking up, particularly the sub-prime mortgages. An idea to package them as tradable securities was hatched among five guys (no boomers) around a table of take-out Chinese food back in 2005. An analogy something like this was likely the intro; 'we can sell even a rotten fish if we wrap it in enough layers.' Wrap they did and sell they did; and their boomer bosses were well-pleased with their new 'innovation.'

While the housing bubble was obvious in its size and scope, its spawn, the more toxic mortgage securities bubble was more like an undetected killer cancer. These innovative new securities contained a time bomb – leverage. Leverage has the unattractive side-effect of greatly magnify losses. The result was that a relatively small number of defaulting subprime borrowers would eventually devastate securities held by banks and pension funds globally, freeze corporate lending, and inject enough doubt into the credit markets to bring the world's credit markets to a standstill. Boom!

This country's leaders are, for the most part, baby boomers. These problems have occurred on their watch. This and future train wrecks, such as Social Security, Medicare/Medicaid, energy consumption, and others represent defining challenges for this generation. Will we, the Baby Boomer generation, be remembered by our children and grand children as hippies, consumers, and protestors or will we actually DO something great as our fathers and mothers did in WWII? Will we be a great generation as they were or merely remembered as a huge, overindulgent, selfish, and noisy problem for Americans that must mop up behind us? The world is watching.