

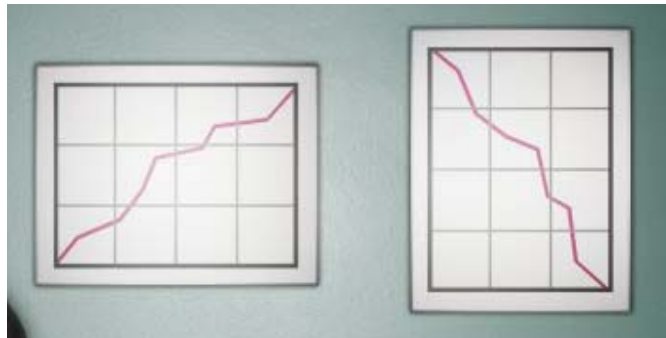
## **A Not-So Booming Economy: Uh-oh, Now WHAT?**

by Skye MacBroom

Lehman Brothers, Merrill Lynch, AIG\*, Washington Mutual and now Wachovia... unless you've been living under a rock these past few weeks, you know that we are in a big financial mess in this country right now. The market has been on a roller coaster that plummets downhill faster than Picabo Street and then rallies and creeps back up again, only to fall again the next day. It's getting a little scary now, especially for FiftyAndFurthermores who could stand to lose a lot. Exactly WHAT is going on with our economy, and WHY? When will it end? How will this affect our retirement funds, our savings, our dreams, our survival? The 50+ are saying, "We aren't 30 years old anymore; we've worked hard and already paid our dues! How can we weather this storm and still come out strong?"

### What's Going On in the Market

While the market is down from its all-time high of over 14,000, these last few tumultuous weeks of frightening ups and downs has still left the market essentially unchanged. If you follow the market every day, you know it is cyclical, and that what goes down must eventually go back up again.



(Notice that I said "eventually;" *when* is the real question here.) While FiftyAndFurthermores have a deeper understanding of the ups and downs of life due to a wealth of experiences, there is no doubt that the loss that we are experiencing in the stock market is still a hard pill to swallow. Many Boomers are afraid during this bear market, having seen, first hand, the effects of a sour economy before.

If you have you ever read the 1954 book entitled, *How to Lie with Statistics*, you know that there are many ways to interpret the facts and manipulate stats in order to suit a particular opinion or make a more dramatic argument. If you listen to only what the media report, then it seems that America is doomed. Politicians like McCain still maintain that our workforce is strong, while others like

the normally even-keeled Alan Greenspan aren't too thrilled (although Greenspan's commentary is not as gloomy as the rest of the financial experts).

In fact, despite what many people think, the third quarter closed out at only 4.5% down, with a loss of 499.35 points on the Dow Jones Industrial Average. In comparison, the first quarter was down 7.55% (-1,001.93 points), and the second quarter was down 7.44% (-912.88 points). Now, this isn't to say that we aren't going through a difficult time right now. These numbers do reflect a percentage of a total number that's like chasing a moving target because the market is constantly in motion. But these quarterly closing stats do point to the fact that we should take every doomsday financial report with a grain of salt, and do our own research to come to our own conclusions.

### **50+ Feeling the Crunch**

The housing market is a mess, and the foreclosure rates are climbing. This influences the FiftyAndFurthermore who perhaps want to downsize, relocate, or even purchase that second beach house that they've been saving for throughout their entire life. It doesn't matter if you are wealthy or just scraping by, this down market is hurting all of us – even if it is to varying degrees of financial “hurt.” Many Boomers are on a fixed income, and the price of gas is through the roof at almost \$4/gallon in much of the country. With the winter months coming on, some of us are worried that our trip to Europe will be cancelled, while some of us are afraid that we won't be able to pay the heating bills. The current economy is making it tougher for people to borrow and get loans. What if we need to borrow money because a spouse gets sick? Where's our back-up plan, our safety net? How do we protect ourselves?



### **So What's Causing This & Who Are These Subprime Borrowers Anyway?**

Many people (myself included) assumed that the subprime borrowers, the catalyst to our current economic meltdown, were the youth of America - the young couples in their 30's who were trying to move into McMansions on tree-lined cul-de-sacs a la Wisteria Lane. It made sense to me, along with a majority of the readers of the Washington Post who left hundreds of heated comments on the newspaper's website. Everyone thought that it would be the young materialistic suburbanites, the less experienced home buyers who would be more likely to overextend themselves by purchasing homes that they could not afford, or tried to “Flip This House” after watching too many A&E and HGTV reruns. I for one was very surprised that the subprime borrowers who defaulted,

and were forced to foreclose on their homes, were in fact mostly FiftyAndFurthermores.

**AARP dissected a national study** that said that borrowers over the age of 65 were 3 times more likely to hold a subprime mortgage than borrowers less than 35 years of age. For borrowers 45 and older, 56 percent of mortgages were subprime, while for borrowers younger than 35, only 12 percent of mortgages were subprime. Perhaps it was a life disruption such as a decrease in income, retirement, or illness that contributed to the subprime borrower's inability to pay for their homes. No matter the reason, at the end of the day, it is both difficult and senseless to assign blame for who wreaked havoc in the housing market, which Wall Street suits let greed get in the way, and whether it is the Republican or Democrats who will save the day. The truth is, we are all in this together now, like it or not.

### **What Now?**

The Fed is working to improve liquidity to encourage banks to start lending again. Leaders on both sides of the aisle are hashing out a rescue plan. Hopefully a renewed confidence in Wall Street will lead us to greener pastures in the coming weeks and months. What our market exhibits through all of this, is that even at its weakest, our economy still has the ability to remain strong.

The best advice for Boomers in a not-so-booming economy is to leave your money where it is! Yes, your 401k looks very bad right now. Don't log in and look at it obsessively every day. Financial planners always advise that diversifying your accounts and exhibiting patience is still the best strategy. The more moving around you do, the worse it will get. So unless you are an experienced day trader, in order to maintain your retirement fund, sit tight during a volatile economic climate. If you are pulling money out of your 401k now, then yes, you are going to be hurt by the daily decreases that you are likely experiencing. But, in time, your portfolio should round out again and resume growth.

**Keep your money in your safe accounts.** The rumors and fears surrounding the fall of Washington Mutual and Wachovia have come true. This scares consumers because, unlike the large investment banks like Lehman Brothers and Merrill Lynch, these are retail banks, our trusted "main street banks," that handle our savings, checking accounts, mortgages, and personal loans.

"WaMu, a company that once considered itself the Starbucks of banking, now has a stock price lower than that of a latte," explained Business Week last week. Its stock went from a 52-week high of \$36.47 to \$1.60 at the close of the market on September 25th. Ouch. That's not good. Well, sure enough, later on that day, the FDIC (Federal Deposit Insurance Corporation) seized WaMu, making it the

largest failure of a U.S. bank in the history of this country. JPMorgan Chase bought out WaMu's assets, the second time that the company has taken over a major crumbling financial institution in the last six months. The deal cost JPMorgan Chase \$1.9 billion. The FDIC chairman has assured bank customers in a statement that it will be a seamless transition with no interruption in services and business as usual – it'll just be under another name from now on.

Are you panicking yet? Even though the largest bank failure in this country is frightening... most retail banks are insured by the FDIC, so your money is still protected. The FDIC was created 75 years ago, and since then, no consumer has ever lost a dime from a bank account insured with them. Basic insurance currently protects up to \$100,000 at each bank, for each type of "ownership category." There is also a \$250,000 insurance limit for retirement accounts, including IRAs. Without getting into any of the minute financial details, you can be rest assured that your money in the bank is safe. But it wouldn't hurt to speak with your financial consultant to make sure that all of your accounts are properly organized and titled to maximize your protection under the FDIC guidelines. Granted, your interest rates may not be enough to overcome the inflation rates of a bear market, but you'll still be able to keep your shirt.

#### **Here are a few more quick tips:**

- There are tax write-offs that you can use to write off your income during losses (not just offset gains).
- Keep your expenses low, stay lean.
- If you've been sitting on a dusty stamp collection that you've been thinking of unloading anyway, sell it on EBay. Who needs more junk? Clean out your basement so you can make a few hundred bucks, feel productive, and feel like you are taking action. At any rate, a fall clean-up will help you to beat the blues.
- Were you on the brink of entering retirement this year? The market is certainly not doing you any favors. Money Magazine actually recommends that Boomers keep working, even if it's only one more year, to stop any further losses. Not only are retirees no longer getting a paycheck, but on top of it, your investments go down and you are withdrawing money. It seems very unfair that, after a lifetime of work, this is what we are facing. But if you can still work, even just a little longer, you will be in a better place when the economy rebounds again.

And remember, this, too, shall pass.

\*Exactly how does the government bail out corporations like AIG? Do they say, here ya go, here's a check for \$85 billion? Nope. The deal means that the Fed will loan AIG the dough during the next 2 years if/when AIG says that they need it. Then a clearing bank will transfer securities electronically to the institution.