

Surviving the Crash of 2010

BY ELLEN UZELAC

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Harry S. Dent Jr.

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To some analysts, demographics suggest a protracted market downturn a decade hence. Financial advisers should prepare their clients now.

That dirty Harry. In his bestseller, “The Roaring 2000s Investor,” noted futurist Harry S. Dent Jr. rhapsodizes about the power and promise of the bull market with such astounding authority that it had a lot of investors calling 1-800-BROKER with buy orders.

But on page 167, under the heading, “Deflation is Inevitable after 2009,” Dent forecasts a “major” stock crash and asks: “What will your life look like in the next depression?”

The Harvard-educated Dent — a favorite on the financial services lecture circuit — has risen to guru status in many quarters as a result of his uncanny and often accurate market predictions. But most of the buzz circling Dent, 47, has involved his optimistic forecasts. In fact, he’s still looking for the Dow to strike 35,000 by 2008. But what about that depressing downturn afterwards, Harry?

As the new century dawns, *Research* thought it timely to ask Dent and others to ponder the implications of a

crash looming sooner or later this decade.

How can brokers — many of whom have never worked in a protracted bear market — protect their practices in a downturn? What are the firms doing about the doom-and-gloom prognostications, if anything? What kinds of new services and products might emerge in such an environment? What industry sectors should you think about while you’re diving for cover?

APOCALYPSE LATER

So here is the world according to Dent: Between 2008 and 2009, earnings will fall and stocks along with them. A crash will come between 2011-2013, lasting for more than a decade. Stock prices will plummet. Unemployment will hit 15 percent. Businesses will go under. Brokers? A lot of you will be driving taxis. What will cause the bust? Its flip side, the boom.

Dent’s demographics-based theory argues that as the baby boomers peak as an economic force — earning, spending and investing — the market will slide because the

smaller Generation X won't have the oomph to sustain it. Not until the boomers' children reach economic maturity will the market recover.

Dent — a consultant to several funds and UITs that use his demographics-guided investment strategies — isn't alone in calling for a significant and sustained market drop.

John Mueller, chief economist for Lehrman Bell Mueller Cannon Inc., the Chevy Chase, Md.-based

financial market forecasting firm, predicted three years ago that by the turn of the century demographics would “stop being a major positive for the financial markets, level out and then turn negative in the first decade or two of the 21st century.”

Says Mueller today, “I think that's been going on.”

And while he doesn't anticipate another 1929, he is looking for lower stock returns — “a slow death of under-performance” for a lot of investors — for the next 20 years.

Then, of course, there's Charles Allmon, editor of the *Growth Stock Outlook* for 36 years. If there is a Papa bear in this industry, it is Allmon, who has been largely invested in cash for years. He believes the market will tip over on its own weight this year with the baby boomers registering a negative impact in 2015.

Depressed? If so, you'll find good cheer in Al Goldman, chief market strategist for A.G. Edwards.


“Anybody who looks out 20 years is destined to failure. Nobody knows what the future holds. Nobody knows if and when the baby boomers will start saving versus investing nor to what degree. Frankly, my opinion is that it's difficult enough to know what's going on today let alone five, 10 or 20 years from now,” he says. “I may be late to the party, but I won't be 20 years early.”

The Race for Rollovers

Thanks to the graying of the baby boom, the IRA rollover opportunity is on everyone's radar screen. But many providers are showing a remarkable lack of preparedness to capitalize on it, according to a new Cerulli Associates report, “The Rollover IRA Market: Retirement Markets in Transition.”

At the moment, only one-third of providers have comprehensive platforms to serve rollover business. A great many are in the process of developing services that will be launched over the next 18 months.

To compete, Cerulli says firms must offer these key “success” factors:

- Educational materials to assist investors with rollover and retirement planning, including a rollover kit and comprehensive Web content.
- Dedicated phone reps to assist with rollovers.
- Handholding for investors throughout the rollover process and pro-active outreach to potential rollover investors.
- Low-fee or no-fee rollover IRAs with brokerage platforms and access to a complete range of mutual funds, securities and annuity products.
- The ability to “map” directly from 401(k) funds to the same funds within a rollover IRA.
- Scalable advice services — guidance that meets the needs of all kinds of investors and balances the need for human interaction against a range of pricing options. 

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LUMP SUM AND THEN SOME

With or without a crash of lasting consequence, the graying of the baby boom is beginning to drive changes in the industry in terms of services, products and favored stock sectors.

In a lengthy new Cerulli Associates report, “The Roll-over IRA Market: Retirement Markets in Transition,” consultant Lisa Baird says firms are starting to position themselves as providers of rollover and retirement services for the long term, marking a fundamental shift in the nature of retirement markets.

“They're making it a much bigger focus,” she says. “We're talking now not just about the saving years but the distribution years — how to make the money last, trust and estate-planning, “life advice” services. A lot of the large firms are already doing this but it will be a must-have for everyone in terms of serving investors of the future.” In fact, Baird says she expects an industry-wide roll-out of such services over the next six to 18 months.

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**Al Goldman
A.G. Edwards**

“This is one of the few times in a person’s financial life when a big chunk of assets moves,” she notes. “It’s not that often that all of a sudden six figures show up and people need to do something about it.”

Cerulli projects that annual contributions to rollover

IRAs will grow from \$127 billion in 1999 to \$467 billion in 2010 as baby boomers retire and move their funds out of 401(k) plans. The firm also expects broker/dealers to capture nearly 40 percent of the assets over the next five years as investors seek personal financial advice about the shift. [See sidebar, “The Race for Rollovers”]

Ultimately, firms will have to train sales and service personnel to handle distribution issues and develop solutions that meet clients’ estate- and tax-planning needs. Baird also says “life advice” services, particularly for retirees, will become more important. Some broker/dealers, in fact, have already begun to offer advice on subjects such as long-term care insurance along with services such as medical-bill management, claims filing and large-print newsletters.

Prudential Securities, for instance, in June launched Prestige, a new financial-services-planning program aimed at high net worth clients in their pre-retirement and retirement years.

With Prestige, a case manager schooled in “life-cycle needs” will oversee each client, bringing in the financial adviser and other experts as needed to deal with such issues as estate-planning, long-term care and disability.

In something of a change, it’s not only the affluent investor that firms are going after. Baird expects service providers to begin to develop products and services aimed at smaller investors because 12 percent of lump-sum distributions (including job changers and retirees) are between \$20,000 and \$99,999, while 85 percent fall under

\$20,000. In some cases, brokers are even bringing down their account limits to attract those assets.

“Maybe in the past it made sense for firms to focus on wealthier retirees, but today, with so many substantially saving in 401(k) plans, there’s a much larger portion of the population with fairly significant savings to rely on in retirement,” says Baird. “These aren’t savvy investors, but they are diligent savers and firms are beginning to take notice.”

“DON’T BE A BROKER”

It is interesting to note that the chapter following Dent’s

Beating The Bust

Even with the stock market crash that futurist Harry S. Dent Jr. has forecast, he says brokers can still beat the bust.

“If you follow our guidelines, your business will still grow in a downturn,” he says. “If you’re making a 15 percent to 20 percent rate of return in an equity boom, you can do 8 percent to 12 percent in a downturn.”

Here is Dent’s advice for an asset allocation strategy for late 2008 into 2020-2023:

- From late 2008: Shift increasingly from stocks into long-term Treasury or very high-quality corporate bonds.

- From 2009-2010 or after the first serious U.S. and global stock correction: Shift 20 percent to 40 percent of your bond portfolio into Japanese and selected European stocks.

- From 2015-2023: Look for great long-term buying opportunities in stocks and real estate. Focus on exurban real estate, emerging countries globally and U.S. small-caps.

- From 2020-2023: Start moving back into a classic portfolio of, say, 30 percent large-cap; 20 percent small-cap; 10 percent real estate; 30 percent international and 10 percent bonds for the next long-term bull market. ▣

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forecast of a crash starts out: “Why You May Need a Financial Advisor and How to Find a Great One.”

As he sees it, a downturn could present a wonderful opportunity for brokers. “They will love you more in a bust than they will love you in a boom. People hate to lose money,” he says. “If you keep them from losing money, you will not only be in business, you will never have to market yourself again.”

Dent adds: “Our story to brokers from day one is: Don’t be a broker. Don’t be a salesperson. You’ve got to be a financial planner. You’ve got to deal with people’s entire investment spectrum and you’ve got to educate them.”

When to tell your clients about the coming crash? Now, according to Dent, and like so:

“[As your financial adviser], I’m telling you now that there will come a time between 2008 and 2009 when you will have to switch your investment strategy. I’m telling you this now because I’m a planner. I’m positioning your life to benefit in boom and bust.

“Look, if you buy this demographics argument on the upside — and most people do — you have to buy to some

extent on the downside. And you need to start preaching this to your clients now.”

Not everyone is gloomy about the market’s future. Take Rich Franchella, Prudential’s national sales manager. “What I think [Dent is] missing frankly is that we can’t even predict what’s going to happen a week from today let alone in 2007. And fundamentally, advice is not going to change. Yes, at times we will be more defensive. Yes, there will be times to duck for cover,” he notes. “But good solid investment advice will always likely be an overweighting in high quality equities.”

Bob Dunwoody, an industry consultant, adds: “The difference between successful and unsuccessful producers is not the ability to pick winners; it’s the ability to minimize losses. Whether the market grows or shrinks will be almost immaterial to the successful broker. As the market gets tougher, clients will refer more and more business to you and the marginal broker will disappear.”

Harry Dent isn’t surprised that most firms don’t want to hear the warning bells he is sounding. But, he adds: “The longer a trend is in force the more they will believe it.” ■