

What's Ahead for the Economy?

I have believed for a long time—since I entered the  financial industry nearly 30 years ago—that there would be a day when America and the world would go through some incredibly difficult financial times. I have known from my own research that demographically everything pointed to the year 2010 for the economy to roll over, but I think we are now on the front edge of that storm, perhaps two years prematurely. The economic winter—essentially a “Category 5” financial hurricane—has started, and I don't think it is going to be over anytime soon. Bounces will occur along the way, but the demographic winter is here to stay for the foreseeable future.

To some degree this crisis is going to have to run its course. What we are dealing with here is the fact that this is not a temporary downturn. People are accustomed to experiencing short recessions. They take you backward for a year or two, then you recover fairly quickly over just a few years.

However, this is likely to be a very long downturn. Early on, Federal Reserve Chairman Ben Bernanke was quoted by *USA Today* as saying, “Full recovery is likely to take more than two or three years.” Now he's sounding more optimistic, but I believe part of that is an attempt to reassure people so they don't panic and produce a self-fulfilling prophecy.

Undeniably, issues related to the housing market caused our economy to crash. The crisis began with a housing bubble, which surfaced when consumers were unable to meet the payments on homes that were too expensive for them to buy in the first place. Greed in the banking and mortgage industry allowed the housing market to get out of control by offering easy entrance into home buying.

Though it started as a housing bubble, and in my opinion *could* and *should* have been contained there, it spread to the credit

markets. Again, instead of being contained there, it spread to all areas of the economy.

Now retail prices are falling, the unemployment rate is rising, and household leverage is coming down as people are paying off debts and putting money into savings rather than borrowing. These are the symptoms of a deflationary crisis, and we haven't experienced one of those in the United States in 70 years.

Essentially, we are in the middle of the perfect storm. The national debt at the end of 2007 was up to \$9 trillion and jumped to more than \$11 trillion this year. We could have a \$3.5 trillion *annual* deficit within two to three years.

The national debt is going to run away from us during the next 10 to 15 years. We will still face deflating pressure for at least two to three years, but as the government keeps bailing, the national debt may rise to \$20 or \$30 trillion (which is where we are headed with Social Security and Medicare, without massive reform). At some point, possibly five to 10 years from now, we will need to be concerned about the U.S. dollar becoming worthless in the face of runaway inflation.

As individual believers, what do we do in the face of this crisis? First, we recognize that we are in a period of time when we have both extreme danger and extreme opportunity. Change creates opportunity, and challenging times actually create the *best* opportunities! Wealth is not lost; it simply changes owners. It goes from the hands of the unprepared into the hands of the prepared. I want you to be on the prepared side.

Second, we get involved, get prepared, and grow and protect our capital. There will undoubtedly be people who suffer greatly in the next few years, and I believe that those of us who have resources are going to need to help others.

But avoid becoming greedy or fearful at this time, and don't

begin to hoard your resources. Continue to be generous and give. We need to stockpile, which is not the same as hoarding. Hoarding is fear-based and done for self-protection. Stockpiling enables you to provide for yourself and for others.

When will the financial crisis end? If we want to get a feel for the future, we must look further down the road, beyond the current economic and demographic winter to the next economic springtime.

What forces and factors will likely produce the next economic boom? Sometime after 2020, increasing numbers of the children of the baby boomers in America, the so-called "echo-boom" generation, will begin moving into their peak spending years. These are children born between 1977 and 1997, and by actual count they are a slightly larger generation than their boomer parents. By 2020 or 2025, I expect America will have gone through quite a purging, yet could still face daunting problems related to old-age pensions and medical payments (Social Security, Medicare).

Nevertheless, once the debt purge is over, the situation should begin to improve as larger and larger numbers of consumers will be moving toward their peak spending years between 2020 and 2040. This creates the potential for another economic boom during this time, if America's economic infrastructure has not been dismantled through socialism or economic winter issues and the enormous debts likely to be piled up by state and federal governments attempting to fix the system. So, boomer boom Round No. 2 could start sometime around 2025. Improvements will hopefully start sooner than that.

In the meantime, those who want to ride out the economic storm successfully will make wise fiscal decisions in order to secure their financial futures and will protect themselves and their families in physical ways by storing food, water,

medical supplies and other items. To learn more about physical preparedness during hard times, go to .

About the author: Jerry Tuma is a Certified Financial Planner™ and the founder and president of Cornerstone Financial Services (). An acclaimed expert on the economy and investment markets, he hosts the nationally syndicated financial show *Smart Money*. Tuma is the author of a book by the same name as well as the recent release *From Boom to Bust and Beyond* (Excel Books).