Wall Street Facing Headwinds as Boomers Forced to Liquidate Their IRAs, 401Ks

Under the law those reaching age 70 and a half must start taking their "required minimum distributions" (RMDs) from their various tax-deferred accounts. These include IRAs, 401Ks, profit-sharing plans, and SEPs. The trouble is that there are so many of them, and they control so many assets, that their RMDs are going to put enormous pressure on the stock market, according to Chris Hamilton, writing at his Econimica blog

The Baby Boom population cohort is nearly 80 million people, and those born in 1946 are now 71, with millions following right behind. The top one percent own or control about one-third of that cohort's assets, while the top 10 percent own more than two-thirds, according to the Congressional Budget Office.

The real question, according to Hamilton, is this: Who will buy when they are forced to sell? His conclusion is dismal: There are so few buyers compared to sellers that stock prices will be forced down as the sellers are forced to liquidate their holdings. As Hamilton explains:

> At 70.5 years of age, retirees are mandated by force of law to sell tax-deferred assets accumulated over their lifetimes and do so over a 15-year period. Conversely, buyers [the younger cohort age 25-60] have a 35-year window of accumulation….
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> Over the past 65 years there were three new buyers for every new seller. [But] over the next 25 years there will be three new sellers for every new buyer.

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In simple terms, the younger working cohort is in no hurry to save for their retirement while those turning 70 are forced to sell, and they must do it over the next 15 years.

For Hamilton, the outlook is even more dismal: "Full-time job growth among the 25-54 year old cohort has stalled since 2000 … and if we make an assumption that [that] slower growth results in just a 15 percent reduction in retirement savings among the 25-60 year old population, the mandated sellers [will] overwhelm buyers."

Hamilton sounds an awful lot like Harry Dent, the demographics expert and author of numerous apocalyptic books including *The Demographic Cliff: How to Survive and Prosper During the Great Deflation Ahead*, published in September 2013. Happily, Dent's predictions often fail to come true, but his analysis is spot on: People behave in predictable patterns as they age. When they're young they marry, have families, and buy homes and all manner of related goods and services. That spending pattern peaks at between age 45 and 50 and then slowly declines thereafter. By following the "wave" Dent has made a nice living predicting the future, despite a spotty record. In *The Demographic Cliff*, Dent holds that the peak spending years have already occurred and that it's downhill from 2015 until

2024, or so.

Dent describes the wave as consisting of four seasons or cycles: "a spring boom with mildly rising inflation; a summer recession with inflation rising to a longer-term peak with major wars; a fall boom with falling inflation, power new technologies moving into the mainstream, and a credit bubble that leads to high speculation and financial bubbles; and then, finally, the winter season with the bursting of the bubbles, debt-deleveraging, and depression." For Dent, that winter season started in 2014.

Unfortunately for Dent and Hamilton, the stock market refuses to cooperate. Over the past five years the S&P 500 Index — which tracks the price performance of the stocks of 500 companies listed on either the New York Stock Exchange or NASDAQ — has jumped by 80 percent.

So, although the stock market "run" exceeds historical averages, there must be more than enough buyers coming into the market from somewhere to soak up those RMD liquidations. Here are a few possible explanations. First, Trumponomics has encouraged many who have been standing aside to take positions in companies likely to benefit from it. Many of those forced to take their RMDs are paying the taxes and then putting the remainder right back into the market. Many of the boomers are continuing to work, not only adding to the economy's GDP but also adding to their savings and investment accounts. Wall Street doesn't operate in a vacuum, which means that investors from abroad (i.e., China, India, the UK) are finding America to be a better, safer, and more liquid and more profitable place to put their investable assets to work.

Both Hamilton and Dent have their demographics right. But turning their analyses into an investment (or divestment) strategy is an entirely different matter.

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