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Fear Itself: A Look Back

by Ed Dower



Perhaps the most pressing questions facing 75 million baby boomers today concern their retirement: Will I have enough to retire comfortably? How much is enough? How much will I need to spend in retirement? How should I invest my retirement dollars? A second major challenge is fear: fear of equities; fear first implanted by Depression-era memories of our elders; fear amplified by the bursting of the tech bubble; fear constantly agitated by the mainstream media, which is built on a culture of fear. So our new series, beginning with this month's newsletter, will address these challenges, starting with fear itself.

In his first inaugural address, Franklin D. Roosevelt, addressing a nation still languishing in the throes of depression, uttered his oft-quoted line, "The only thing we have to fear is fear itself." But the quote does not end there. FDR continued: "The only thing we have to fear is fear itself—nameless, unreasoning, unjustified terror which paralyzes needed efforts to convert retreat into advance." There is compelling evidence that the current fears that paralyze and overshadow many boomers are if not nameless at least unjustified.

In early 2005, as the much-talked-about baby boomers began turning 60, the media painted pictures of gloom. In his book *Diplomacy*, Henry Kissinger writes that part of the greatness as well as part of the weakness of Americans is that we are a historical, meaning that we do not consult the historical record but only current circumstances in choosing a course of action. Perhaps this explains why fears of those current circumstances, whatever they may be, so often outweigh the irrefutable evidence of history, which supports sound investing in the stock market. For example, on April 20, 2005, no one reported or even appeared to understand that over the 60 years since those first baby boomers were born, the broad stock market (S&P 500) not counting dividends had risen sixtyfold, from 20 in 1945 to 1,200 in 2005. Sixty times higher in 60 years!

Given such an incredible record of prosperity, one would think that this was an exceptionally tranquil 60-year period. One would be wrong! Here is a partial list of the frightening things that I've lived through as one of these boomers during this period of incredible stock market gains.

Boomers were still eating their baby food when it became clear that the USSR—our World War II ally—was bent on world domination and our destruction. In early elementary school we practiced air raid drills in the event of nuclear war, while our uncles and cousins were fighting and dying in the Korean War. By seventh grade, the Soviets ruled space and had built up a "missile gap." During the Cuban Missile Crisis we teetered on the brink of "mutually assured destruction" through nuclear annihilation.

The third president we had known was assassinated, as was his brother and two of our most charismatic African American leaders. Riots followed, cities burned, campuses were closed, Vietnam, Cambodia, inflation raged. Watergate brought us to the greatest constitutional crisis since the Civil War, during which half of the American stock market equity evaporated.

High-double-digit inflation and international humiliation at the hands of the ayatollah characterized the next presidency. The following president ran up the highest budget deficits in U.S. history, and our stock markets languished while Japan's economy roared. There was the first Gulf War. The greatest banking crisis since the 1930s plunged the economy into a deep recession. Manufacturing jobs began moving offshore while layoffs and unemployment rose sharply.

The next president tried to communize healthcare, was plagued with serial sexual scandals and survived impeachment while leaving his successor the greatest financial bubble in our history. When the bubble burst, it touched off the longest, deepest stock market decline since 1929-1932. Terrorism came to the United States. More firefighters died in a hundred minutes in New York City than had died in the preceding one hundred years. Bioterrorism—anthrax loomed and we were

again plunged into war. Corporate fraud was exposed and top executives went to prison. Now the fears of a growing federal budget deficit, negative balance of payments and a looming housing crisis accompany fears of global warming. And on it goes.

It is no wonder that people look at the fearful events of this period and become paralyzed. Yet, if we consider what the market has done in spite of it all, we have every reason to be highly optimistic about the future. To paraphrase Nick Murray, a seasoned advisor to advisors and whom I've drawn on heavily for this article, "History makes optimists of us all, but the news can make any of us cowering pessimists on any given day."

So if you're looking for excuses to be fearful, you'll find them. The challenges baby boomers face are certainly real; the key for you and me is whether we will face them head-on or be paralyzed by "fear itself" nameless, unreasoning, unjustified.

I have seen far too many people plan their financial lives around fear rather than reason. Next month, we'll talk about fear looking forward and discuss why investors shouldn't be afraid of the future. If you are concerned about your financial life, call us to schedule a no-cost, no-obligation review of your situation and develop a plan to help you as you reach for your goals and dreams.

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