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Boomer demand to revive markets

Planners need to look for trends in demographics

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By Jonathon Chevreau

Author and U of T professor David Foot tells a class of advisors not to reproach families who put children and debt ahead of retirement savings.

Photo credit: Aaron Lynett/National Post

It would be a huge mistake for Canadian Baby Boomers to sell their stocks during the current financial crisis because demographic trends mean stock prices will eventually move much higher, says author David Foot, an economics professor at the University of Toronto.

Foot, who argued in his bestselling Boom, Bust and Echo that demographics explains "two-thirds of everything," told a Russell Investments Canada Ltd. briefing for financial advisors this month that stock demand by Boomers and their pension plans will bring the market back. His research normally looks ahead three to 10 years, but the time horizon for most Boomers is at least another 20 years.

Canada's Boomer generation was born between 1947 and 1966, which makes them aged 42 to 61 in 2008. It peaked in 1960: That cohort is just 48 right now. The front end in their late fifties and early sixties are "madly saving for retirement."

But the tail end in their forties and early fifties are still "up to their eyeballs in debt. Teenagers are eating them out of house and home and they have little or no money to save for retirement. So of course surveys show most Boomers haven't saved enough for retirement."

That cohort won't be retiring for at least 15 more years. "I don't know why business, government and media think the Boomers are all about to retire en masse," Foot said.

He warns his younger students that Boomers in their forties won't be leaving the workforce any time soon to make room for them.

Financial planners may argue that those who save $5,000 a year between ages 20 and 25 will do better than those who wait till 35, but most families in their thirties and forties are preoccupied with child-raising and mortgages. "It's not till your fifties that you have money for retirement. That's life. Get used to it."

Foot suggested advisors not berate families who put children and debt repayment ahead of retirement savings. Their job is to help the Boomers build their nest eggs in the years between 50 and 65 and eventually transition from stock accumulation to stock management. For younger Boomers who have just begun to save and invest, the current bear market constitutes "a great buying opportunity,"

Surveys show most Boomers haven't saved enough for retirement Foot said. They have 10 or 15 years to build up their nest eggs.

The oldest Boomers born in 1947 turned 18 in 1965. During the 1960s and 1970s they flocked from small towns to downtown urban cores. By 1977, this first wave had turned 30, started families and moved to the suburbs.

This accounted for the growth of the 905 region of Toronto in the 1980s and 1990s, and the lower mainland of B. C., the north and south shore of Montreal, and the Calgary-Edmonton corridor. This was the era of the "cocooning" mega trend, as indebted Boomers stayed at home with the kids and ordered in pizzas to watch Blockbuster movie rentals. They borrowed money at the same time, driving interest rates up in the early 1980s.

In the 1990s, leading-edge Boomers hit their forties and were stressed out as they juggled child-raising with high-pressure careers. By 2000, there were fewer younger people because widespread use of the birth control pill in the 1960s and '70s meant they hadn't been born. Unemployment rates fell and companies often paid signing bonuses as business became convinced there was a labour shortage.

But business forgot Foot's cycle of boom, bust and echo. As of the 2006 census, the Boomers are in their forties and fifties and there are fewer people in their thirties. But the echo – whose births peaked in 1991 – is about to be heard loudly: The Boomers' kids are entering their twenties and joining the workforce. As Foot noted a year ago in an interview with Advisor.ca, 79 million Boomers in the United States had 76 million children, making the echo generation almost as big a demographic as the Boomers themselves.

That will underpin the market as Boomers rebalance their portfolios in the second and third decades of this century. They will move to a more conservative asset mix in their early seventies but won't do it en masse. "It will be a gradual, slow process."

Foot's data show older investors have more stocks and their portfolios embrace more risk than young investors. Boomers will maximize stock ownership while they're still earning good incomes in their late fifties and early sixties, with their kids vacating the nest and completing post-secondary education. By the time the Boomers are ready to sell their stocks, the echo kids will be in their mid-forties and be a ready market for the stocks the Boomers unload.

The echo generation is now headed for the downtown core, but will eventually move to the suburbs in their thirties and forties. Meanwhile, Boomers now in their fifties will be seeking peace and quiet, moving to such places as Niagara on the Lake, Ont., and the Muskokas.

"That's where the financial planning money is. They're not downtown." Only a minority will move to downtown condos, Foot said an in interview.

A rising wave of immigrants to Canada is also bullish. They tend to be in their thirties rather than twenties because it takes the government five years to process applications.

Instead of migrating to large Canadian cities, they will locate to such smaller towns as London or Brantford, Ont. They'll want good homes and schools and also want to build stock portfolios.

Foot says it doesn't matter whether the numbers of newcomers are 250,000 or 400,000 a year, "this is what Canada looks like 20 years from now."

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