PART I

More Life at the End of Your Money

One of the marvels of the twenty-first century is the ability of the medical world to prolong human life. It's been said that if we were to apply what we currently know about medicine and human anatomy, the average person could live to be 115 to 120 years old. This is both exciting and scary. While a long life is a good thing, the ability to have a great quality of life is essential. That means you need money—and lots of it.

In a world of uncertainty, investors are finding themselves more likely than ever to find themselves retiring earlier, whether forced or by choice, with the prospect of outliving their money. The traditional investments of stocks and bonds have a difficult time of just beating inflation, much less being capable of producing the necessary double-digit returns in order to make retirement a success.

In the following chapters, you will be exposed to the current pitfalls of following conventional wisdom when it comes to long-term investing. More importantly, you will be exposed to the global investment trends that are evolving right before your eyes. Finally, you will be exposed to how and what it will take from you to use futures and forex to catch these global investment trends and to safeguard your money in the long run.

In the past, being wealthy was believed to be a luxury that only a few could achieve. This is no longer the case. With careful planning and a shift in your thinking, you must do everything in your power to make your money work harder than ever before.

CHAPTER 1

The Need to Build Wealth

In 2004, President George W. Bush and other political pundits claimed that the Social Security fund was on the verge of collapsing. President Bush and the Republican senators pushed for Social Security reform and privatization. Their rationale was to establish a way for Social Security to give a fair return for future retirees and to make sure that future generations would be able to enjoy the benefits of their Social Security contributions directly.

Whether you agree or disagree with the assessment of Social Security collapse, it is no secret that Social Security benefits have decreased over the years. With the decline in benefits intersecting with longer life spans and the negative savings rate, Americans have few choices to improve their long-term economic prospects. In the end, there are really only two solutions.

The first solution is to save more; the second solution is to make more money. While doing one does not necessarily exclude the other, this book is about making more money. While the future may look bleak, there are ways to boost your 401(k) account and individual retirement account (IRA). There are also ways to take your risk capital and make it work harder than ever. Futures and forex can do that for you.

In this chapter we will take a critical look at increasing life spans, the negative savings rate, and problems with Social Security. We will then see how all of this will have a direct impact on your life. This is not a definitive write-up on these subjects, nor is it meant to give you a purely doom-and-gloom view of the world. My goal is to shed a light on what we face as investors for the long haul.

When you make any investment decision you must put it into the context of how it can positively or negatively impact your lifestyle in the long run. While futures and forex investing involves risk, you simply need to look at the alternatives to determine if the risk is worth taking or not. At the end of the day your economic well being is what is important.

RETIRING EARLY

There has always been the fantasy of retiring early. Dreams of leaving the 9-to-5 grind abound. The belief is that the sooner you leave the workforce, the more you can get started on enjoying your real life. The problem with this logic is that although the idea of retiring early is appealing, you still have to generate an income that will match or beat the income you received from working.

Many dreams of retiring early crash against the harsh reality of the economic necessity to support yourself and your family. Dr. Ephrem Cheng did a research report on Boeing Corporation. In his research he discovered an unusual fact: Those who were able to retire early, in their fifties, were likely to live well into their eighties. Those who retired after age 55, and every year thereafter, would lose approximately two years off of their life span, until, eventually, those who retired in their 60s would rarely make it past their 70s.

So the reality for those who retire in their fifties is the fact that they will be facing down at least 30 to 40 years—almost half their lifetime—supporting themselves with whatever nest egg they can muster.

Let’s look at a simple example: If you require at least $45,000 a year to live on, with no major medical problems or health care needs, you will need a sizeable savings account to cover you. In order to support yourself over the course of 30 to 40 years, you will need inflation-adjusted return that will allow you $45,000 in payments without having to tap your principal.

The rule of thumb is that you need at least 25 to 30 times that amount in reserves. In this case, you would need a portfolio of $1,125,000 set aside, on the low end. Now, of course, if you have other sources of income, such as pensions or Social Security, then you can reassess the $45,000 figure downward. Unfortunately, many of those programs don’t kick in until you have reached a minimum age, typically your early sixties.

Many people get by without having such large portfolios, but when you do that, you are typically tapping into your principal, thereby dwindling the future opportunities of returns.

The Teachers Insurance and Annuity Association–College Retirement Equities Fund (TIAA-CREF) has developed a retirement worksheet in the

"Retirement Countdown" section of their web site. It will give you insight into exactly what it will take for you to retire at various ages.

No matter what you do, you have to acknowledge that while early retirement or retirement in general may seem almost glamorous, longer and longer life spans can make it difficult to live the life you are accustomed to. While our scenario looked at income in the $45,000 range, the demographic of the average futures trader is income near or exceeding $100,000 per year. That would mean you would need a $2 to $3 million dollar portfolio to sustain that level of income.

So let's take a look at how realistically investors are matching their retirement needs with their actual deeds.

NEGATIVE SAVINGS RATE

In 2005, the U.S. Commerce Department's Bureau of Economic Analysis put out a disturbing revelation: Americans had spent more than they earned and effectively had created a "negative savings rate" of 0.5% for the year. The only other time that this had occurred was during the Great Depression.

While people were saving money, they had effectively jeopardized their savings and borrowed money in order to make purchases today. This gradual slide began in 1985, when we were saving 11.1% of our disposable income; today's negative saving rate of 0.5% has effectively created a drop of 11.6% in savings in just 20 years, while at the same time inflation has been moving at approximately 3% per year.

In order to understand exactly how a negative savings rate evolves, we must separate income from wealth. If you have property or assets that appreciate in value, you have one of two choices—hold it or sell it. If you sell it and then spend the proceeds, you have decreased your wealth while not increasing your income.

This is the "wealth effect." As the wealth grows, there is a tendency to spend more money. In the short term the impact may be minimal; over time, however, as we spend our wealth while we decrease our income, we effectively end up cannibalizing the capital we need for retirement.

While the idea of a negative savings rate is not new, there are interesting parallels between now and the Great Depression. The unifying theme to both eras is banking. What partly led to the Great Depression was the liberal lending policies of the banks to fuel the aggressive movements in the stock markets. Investors were often allowed to put up only 10 cents on the dollar, with remaining stock used as collateral for the purchase.

This liberal banking policy, coupled with the antispeculation fever in the stock market that followed soon thereafter, forced the Great Depression onto America's shoulders. Now is not so different.

This time around, instead of the stock market, the banks are being liberal with real estate loans. All types of negative amortization loans, adjustable-rate mortgages (ARMs), and 40- and 50-year mortgages, along with liberal refinance packages, have given investors more and more ways to get equity out of properties, while at the same driving the values up on these same properties.

Banks then, banks now. There was speculation then, and there is speculation now.

By pulling equity of properties (wealth), but not increasing their income at the same time, real estate speculators have collaborated with the banks to effectively pay mortgage notes and diminish their ability for long-term savings in order to pay for their retirement needs.

The only way to resolve the issue of diminishing wealth is for the properties to increase in value. It is unlikely that this will be happening anytime soon. The ability for speculators to sell the properties to eliminate their debt or for the property to increase in value in order for their paper wealth to grow is very difficult in the current environment.

Foreclosures, short sales, and tightening lending practices imply that the negative savings rate will increase, not diminish, in the years to come. The consensus is that the only way this problem can be stymied effectively is the transfer of wealth, inheritance, to the Baby Boomers from their parents.

The question you have to ask yourself is: "Do I wait around for someone to die before I shore up my savings, or do I figure out a way to increase my income and my disposable income and simply save more?"

SOCIAL SECURITY

We talked earlier about retiring early. The earlier you retire, the longer you are likely to live. While you need a significant amount of reserves in order to cover your annual expenses, Social Security can be a big help. Depending on your age, you can collect partial or full benefits.

For rough numbers, if you made $45,000 per year, you could expect Social Security benefits in the neighborhood of $15,000 per year. The problem with these benefits is that you wouldn't be able to collect them until you were 62 and you would still need a way to come up with $30,000 in annual income from your personal savings. That is just the tip of the iceberg of the problems with Social Security, though.

In 2004, President Bush enlightened us all to a potential collapse in the Social Security system. Looming on the horizon is the fact that 78 million Baby Boomers will be retiring. In a country of only 302 million people, that is a significant number of retirees. Couple that with the fact that currently there are 3.1 workers to support 1 retired worker, but as time progresses there will be only 2 workers to support 1 retired worker.

Federal Reserve Chairman Ben Bernanke said to Congress, “Unless Social Security and Medicare are revamped, the massive burden from retiring Baby Boomers will place major strains on the nation’s budget and the economy.”

To put all of this in context, we have to look at what Social Security is and what it isn’t. It was established in 1935 by President Franklin D. Roosevelt. It was designed as social insurance that was funded by payroll taxes. This payment went to a “trust fund,” which would then redistribute benefits to the retired.

One of the key flaws of the system is the idea of calling it a “trust fund.” In truth there is no actual capital in an account to make payments to beneficiaries. The program is a “pay as you go” program. So while we may have contributed to the program for years, our contributions are not set aside for us but actually paid out to current retirees.

The hope is that in the future there will be enough workers to contribute to the program, so that then retirees still will be able to draw benefits. Currently, $500 billion in benefits are paid out to 47.5 million people. Couple the fact that there will be a potential doubling in the number of beneficiaries, which would double the payments, with the fact that the “money” collected to shore up Social Security has been invested in special “nonmarketable U.S. government bonds,” and there is a sincere fear that there simply will not be enough money to continue retirement benefits as they currently exist.

Insolvency projections for Social Security range from 2018 to 30 or 40 years from now. Regardless of the “when,” the reality is that it will be more and more difficult to fulfill the promises of Social Security. The last time there was a potential crisis in Social Security of this magnitude, back in the 1980s, several reforms were implemented. Taxes were increased, the benefit age was raised, and Social Security benefits, up to 50%, became taxable.

These are some of the same solutions being promoted in today’s environment. To understand the magnitude of the problem, currently 7% of the total U.S. economy is allocated to Social Security. In 2030, that number will increase to almost 13%, and by 2050, over 15% of the entire U.S. economy will be allocated to Social Security.

If the U.S. government were running a surplus, this drastic percentage growth would not be so alarming. The problem is that the government is running a budget deficit to the tune of $319 billion dollars a year. With no end in sight to the war on terrorism, this deficit figure does not look like it will be ending anytime soon.

The solutions to "fix" the Social Security system are not that appealing. If taxes are increased, we would effectively see an increase in taxes from 18% of the U.S. budget to 24%, driving us closer and closer to being a purely socialist state.

Privatization of Social Security is also touted as a potential fix to the problem. While plausible, it has little to no bearing on fixing the "pay as you go" system that has been in effect for over 50 years. In fact, it will exacerbate and speed up the need to use the U.S. Treasury bonds to pay current Social Security recipients, with the eventual need to find a way for the United States to honor those bonds.

Those who do have the new private Social Security system will then be responsible for their own investing decisions, even though many of them are currently having difficulties managing their current 401(k)s and IRAs.

Another potential possibility is to increase the age for Social Security distribution to 70, bumping it up from the current 67. While this, on the surface, will delay Social Security payments, it simply means that those who wanted to retire at the traditional age of 65 will be forced to work another five years, which means their private savings will have to sustain them even longer.

Any increase in the normal retirement age will also mean there will be an increase in the age to receive limited benefits as well. If you are forced to retire earlier, you simply have to tough it out and fend for yourself.

None of the proposed solutions to shore up Social Security benefits represents a positive impact or solution for those currently receiving benefits or those Baby Boomers who will be receiving distributions in the future.

CONCLUSION

While none of these things by itself is a problem, it is the combination of a potential Social Security collapse, the changing idea of what retirement may mean, and the negative savings rate that makes it clear that traditional forms of investment, stocks and bonds, need to be supplemented with an alternative that can power boost your overall returns.

Futures and forex investing has the potential to do that for you. With the commensurate potential of boosted returns, you also have to realize that there is increased risk. When it comes to futures, you have the ability to lose what you put in and more, if you are not careful. When it comes to spot forex investing, you are trading on a 24-hour cycle. The speed and discipline you need in order to be successful at spot forex can take some time getting used to, before you ever are able to turn a profit.

When you look at the potential future of your long-term investment goals, the question you have to ask yourself is: "Is the risk worth taking?" Only you know the quality of life and lifestyle to which you have grown accustomed. Only you know what you expect from your investments. Only you know what standard of living you expect as you grow older. Whatever you do, take control of your fate and don't be a victim of the financial whims of others.