

If It Looks Too Good to Be True, ...

by Steve Malerich

Most people should know how to end that statement. Leading up to the current financial crisis, many looked at real estate prices in some significant areas of the United States and concluded that we were in an asset-price bubble. Yet, despite that appearance, we continued to lend money based on prices then prevalent. Now, the bursting of the bubble has sent shock waves around the world.

Although real estate can be called a trigger of the current crisis, it is only part of the problem. For years, we have lamented that people weren't saving enough. Yet, when spending slows, we forget about the need for increased savings and investment. Our attention turns to the slowing economy and we demand that something be done. Invariably, that has led to some form of stimulus to encourage increased consumption (and discourage saving).

Could it be that the depth of our current crisis is related to our failure to find an economic goal other than continuous "growth" as it's been measured for decades?

As painful as it may be, we can view the current crisis as a wake-up call. Rather than trying desperately to restore a "healthy" economy, perhaps it's time to try building a truly healthy economy—one where we don't keep promoting consumption of any and all kinds at the expense of saving and investing for the future.

America has taken a step toward long-term fiscal responsibility. We have reduced spending. The next step is not to reverse completely that movement, though some reversal may be good. Rather, we need to start moving some of the increased savings into things that will promote long-term needs.

Economic growth can come from investments targeted for long-term benefit. An obvious choice is in investments that will help to meet the needs of a substantially growing number of retirees. There are many other candidates for such investment. The physical sciences give us many warnings about things that may be too good to be true.

No doubt, some such investments will fail. Others may prove to be unnecessary. But then, investments of all types fail and solutions often abound for problems that don't materialize. Imagine the casualties among traditional investments, however, if any portions of today's warnings prove accurate.

We should not continue to promote things that have worked in the past just because they have worked in the past. There is too much evidence to suggest that at least some of these things are—too good to be true.

Steve Malerich, FSA, is assistant vice president and actuary at AEGON USA in Cedar Rapids, Iowa. He can be reached at smalerich@aegonusa.com.