

The Financial Tsunami

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What's happening?? What can we do?

Things are so much more complex than you are being led to believe by reading mainstream newspapers, or by listening to "talking head" sound bites. I'd like to give you another perspective on the economic crisis and how you and yours might best be served as we go forward.

First, it's important to note that we are living through history being made. Life as we knew it is no more and the financial landscape of our individual lives, as well as that of our country (and the world), is forever changed. There are more than a few things that led up to and supported the speculative housing bubble, as well as the credit bubble. And we all know what happens to bubbles --- eventually, they burst!

What makes the current financial meltdown so vast and so devastating is that it was created by several factors that came together as the perfect financial storm. Those factors included: completely unregulated markets and institutions, greed and hubris, the belief that our computer models are infallible, the belief our economy can grow indefinitely by creating financially engineered paper products (aka derivatives) that were being sold all around the world vs. creating *tangible* things or products, the belief of so many that "more is better" --- if a leverage ratio of 5 is good, 10 must be better and 30 is nirvana! And finally, the use of risk seemed to be relegated to those infallible computer models as opposed to using some common sense in order to recognize that a house built on and with paper is completely unsustainable.

Was it only about Wall Street? No. Although there is certainly a lot of blame being thrown around (and very possibly some crimes that were committed), Wall Street was not alone in their thirst for more and bigger is better. So how did we get here? In "The Affluent Society", John Kenneth Galbraith characterized the present economic structure in America as based not only on the satisfaction of desire, but also on the creation of desire. This is virtually unique in the history of the economies of most cultures. Indeed, Galbraith concludes that the creation of desire creates the need for more production of goods and services, which generates a loss of connection to the true things in life. And then, as he says, "Production only fills a void that it has itself created."

The proliferation of desire has been the basis for our capitalistic economy. It is not the satisfaction of desire, but the creation of *artificial* desire that has driven our consumer-based society. People do not need 99% of the products that are offered in the market place. So, if we only bought the goods and services that we actually needed (which is the 1%) and the so-called "normal" desires are met, our economy would most likely collapse. So in reality, our economy has been based on a long history of created delusions and false desires.

So how does this play out in the real world? US consumers account for 75% of the US GDP, so while we were all seriously encouraged to shop and buy and consume, we also had to be willing participants in order for that to work. In the US it was made all too easy for us to get caught up in the hype that went something like "real estate always goes up", "the banks are practically begging me to take out a line of equity on my home", or "the value of my home is going up, so why shouldn't I live it up a little?" These are comments I have heard over and over during the past 5 years.

Americans have less equity in their homes, more personal debt and less savings than at any time in history. This kind of sounds like what's happening on Wall Street right now, doesn't it? Individually and collectively we are undercapitalized. For banks this situation creates a lack of solvency and we have seen numerous banks and financial institutions go belly-up, or bought and sold at nearly fire sale prices. For individuals it means we have been living beyond our means and are significantly strapped for cash. The days of using the equity in our homes as if it were a never-ending ATM machine are over. And unfortunately, those of us who bought more home than we could afford are now in foreclosure, our lives forever changed.

The debt and lack of savings for individuals means their standard of living will have to change. Credit lines are being reduced and it is all but impossible for anyone to get a loan for anything today. For companies the liquidity crunch means no one trusts anyone, banks aren't lending to each other and companies can't even get short-term loans. And since credit is the grease that keeps the economy functioning, everything has all but ground to a standstill without that flow of credit. This is the *only key issue* the original \$700 billion Bush bailout (TARP) addressed. There's still a lot more out there that hasn't yet been brought to light, I'm afraid: the need to capitalize the banks (which has already begun) so they can begin lending again, the \$62 trillion credit default swap "problem" (a type of derivative), the unwinding of the "carry trade" (a strategy in which an investor sells a certain currency with a relatively low interest rate and then uses the funds to purchase a different currency yielding a higher interest rate), the ongoing de-leveraging of the hedge funds and the financial institutions and finally, the slow-down in consumer spending and its impact on the market and the GDP – just to name a few.

What can you do? Well first, it's vital that you understand that this is not a short-term bump in the road and in a little while things will get back to normal. There is no going back and there is no "normal" anymore. The sooner individuals recognize this, the sooner they will be able to see that a new game is being created and the game will have new rules. It's still a bit early to tell what the new game will be, but we can begin to glimpse some of the new rules.

Some of the new rules:

#1. The standard of living for all but the wealthiest will decrease. However, this can actually be a blessing in disguise because let's face it - many of us have known for some time that our crazy love affair with material possessions was not really all that healthy, *or* fulfilling, right? We will be forced to get very clear about what is most important to us and then begin to allow our financial resources to flow to those things, rather than our money flying every which way. There is a need to prioritize, obviously, but in the process we will also learn to recognize our *needs* vs. our *wants*.

#2. We will save more. This ties in with #1 and is also quite a departure from what many of us have been used to here in this country. This is what I mean: the US has had the lowest savings rate of any developed country for a long time. For many years it was actually negative, but in the 2nd quarter of 2008 the rate shot up from .3% to 2.6%. We are definitely moving in the right direction now, but statistics show that the savings rate will need to be at least 8% before we are on the road to economic recovery.

#3. The outdated and hands-off "buy and hold" investment strategy will **not work** in this environment. Boomers will have to rethink their retirement plans because historically speaking, the two sources most depended upon for retirement income - stock portfolios and home equity and value - have greatly diminished.

I'm going to be straight with you. The period ahead will be shocking and unnerving, a frightening time filled with a lot of unknowns and uncertainty. And we *could* choose to become victims and resist the changing world. We could feel deprived and angry or decide to say, "It was all done to us". But that won't change anything or get us on the road to recovery, will it? I'm not saying that you can't have your feelings about it. This is a time when millions are dealing with massive changes and loss, and it certainly isn't pretty. However, if one is even just a bit curious, it can also be an exciting time. Perhaps it would be helpful at this point to remember that these chaotic cycles have always occurred, throughout history. And new beginnings and opportunities always follow on the heels of a crisis.

A few examples of what could be possible for us are the following: What if this time could be used as an opportunity to revision our lives, creating new ways of being in the world - with family, partners and our community? The concept of co-housing comes to mind. Co-housing is about creating neighborhoods for the 21st century. These neighborhoods are designed for connection and community. Cars are not allowed within the living areas of these communities – they are relegated to the periphery. This is the opposite model from what our current neighborhoods utilize, which are built around the car, with wide roads and garages that are front and center. No thought is given to ways in which neighbors can naturally connect with each other. There is also a growing movement towards supporting local economies. We can support the ongoing growth of this

movement by buying locally grown food and by buying from or investing in local businesses vs. the big chain boxes.

These concepts have the ability to build systems and structures that are for the benefit of the many vs. the few. Here's what I know for sure. As the financial system gets put back together, it will be imperative that broad spectrums of people, including women, are part of that rebuilding process. Otherwise, we will simply get more of the same.

Our whole perspective on what it means to be a human on this planet can and most certainly will, need to shift. For example, in our culture it seems that over time money has assumed a role similar to that of religion. Is that the correct status for something that originally started out as a means to facilitate the exchange of goods? Of course we will need to continue utilizing money, but there is something *very* present now that I believe we forget sometimes. We also need each other. There has never been a time in history when that wasn't true, but right now it feels even more vital.

So I invite you to begin to look at all that is happening through the eyes of someone who is more than just a bit curious about what it might be like as a human in the *new* world, vs. being in the old. Grieve we must, for there is loss everywhere. It's so hard to make these kinds of changes. But at some point it will be time for all of us to look at "*What's happening??*" and then realize something very important about ourselves. Every single one of us has a significant role to play in reshaping the economic, the social and the moral landscape of this country, as well as the world.

I, for one, am up to the task.

Megan Gelhar is a financial educator using investing as a tool for transformational change. She works at the mental, emotional, spiritual and practical levels, and sees this time of disintegration as an opportunity for all of us to get clear about who we are and what is most important to us.

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