For the Boomer in Your Life

Kentucky, 1931

Knock. Knock. Knock.

My Great-grandfather looked up at the clock on the mantle, the rhythmic tick saying it was well past the time visitors should be standing on the deep porch with white columns at the front door. Much less in the middle of January.

He twisted around from the crackling fire, looking through the dining room to the kitchen where my Great-grandmother was finishing up after supper. She shrugged as the dogs barked.

Taking a sip of coffee and standing up from the table his grandfather had bought for the house when he built it in the mid 19th century, my Great-grandfather walked past the winding staircase in the foyer going to the second story of the Antebellum style house to see who it was at this hour of the night.

To his surprise, his banker from town was standing on the porch.

“John, what are you doing here? Come in, get out of the cold. I’ll get you a cup of coffee.”

“No, that’s ok, I can’t stay”, the banker said, not meeting his gaze.

“I just wanted to tell you in person…” his voice trailing off as his mouth went dry and he fumbled in his coat pocket.

The banker’s gloved hand finally finding the envelope and pulling it out, pressed it into Great-grandfather’s hand, looking up at him.

“The bank isn’t going to open tomorrow.” He said at a near whispered.

“This is all the money that was left, I couldn’t get you anymore. I’m sorry.”

My Great-grandfather was stunned.

“What are you talking about? How much is in here?” he said, feeling the envelope.

The banker looked grim and ashamed.

“$10,000. That’s all that’s left of your account at the bank, I’m sorry.”

The two men stood there for an instant, neither saying anything, only the sound of winter wind blowing through the branches of the big oaks lurking in the darkness like giant sentinels outside the pool of dim light illuminating the two men standing on the porch.

The banker finally said, “The bank won’t open tomorrow. It might not open ever again. A lot of banks aren’t going to open anymore. I’m sorry.”

And with that the banker turned around, walking back into the night.

The Great Depression had begun.

Safety and Liquidity

This is a real story from my family. My Great-grandfather was a successful large farmer in southern Kentucky at the start of the Depression.

I was thinking about this story after a close friend called me about his mother who is a widow, doesn’t want to take any risks with her savings, and is in her 70’s with a good amount of savings, roughly $2 million.

This post is geared specifically for those of us who have aging parents who have done well and now find themselves in a changing world they don’t understand and want to make sure they have enough money to last the rest of their lives.

My friend's mother knows about me, and asked him what I think she should do.

I told him first, if she came to me and wanted me to manage her $2 million, I would say I couldn't since I've never taken the Series 65 test and am not a licensed Investment Advisor.

But secondly and more importantly, I'd tell her she doesn't need anyone to manage her money for her with short term treasury rates above 5% for what her goals are in her 70s.

I could not in good conscience, even if I was licensed, charge her a fee for simply keeping a portion of her money in a bank account and putting the rest into short term US treasuries.

Which is exactly what I would do right now for my own mother, if Heaven forbid, something happened to my father.

If my mother wanted my help, this is what I would do.

A year of liquidity in the bank of her choice to cover her lifestyle, plus a margin of safety so she feels safe, ask her where she wants to live, then help her open a TreasuryDirect account and deposit the remaining amount in six-month T-Bills making over 5% for her.

What is her monthly lifestyle burn rate?

Let's say it is $5,000 a month. She would need $60,000 in the bank, which allows her to sleep soundly at night knowing no matter what terrible news happens in the world, her life isn't going to change, she's still going to take the dog for a walk, garden, go out to lunch with her friends.

Margin of Safety

I would then add in another $40,000 to the bank account because I've never met a woman who didn't like having extra money in the bank. You can own real estate, gold, stocks, bitcoin, and to most women, none of that is real if it isn't dollars in the bank. I don't make the rules.

In her 70s, with the amount of money she has, if she wanted more than $40,000 for a margin of safety, I would simply ask her how much more does she want in the account so she feels safe, doesn't have to worry, and can sleep soundly at night. For the example, will use $40,000.

Where does she want to live? Does she want to move closer to family or stay where she's at?

I would recommend moving. If my father isn't there anymore, my mother isn't going to want to maintain the acreage, farm equipment, barn, or shop.

Build a nice house or buy a new one that doesn't require any maintenance, say a 3/2 single-story so as she gets older, not having to walk up or down stairs and feels safe, but be smart, don't take on any extra debt to do it, and there is nothing wrong with thinking about the future

and building something that will be a good rental property for the family or easy to sell when she's gone.

Wise people plan for their own death and think about their family, selfish people and fools do not. It is that simple.

If she does move closer to family, what she sells her house for is what she has to use to buy/build the house closer to family.

Don't get sucked into the HGTV hype of thinking you need custom pink marble countertops cut by hand from solid rock in the Sedona desert at sunset while a shaman chanted prayers over it to imbue the crystals with good vibes or need subzero refrigerators and freezers.

My mentor had subzeros in their custom kitchen. His wife loved them until they started breaking and she started writing checks to the repairman, then the repairman loved them.

Doing this she doesn't have a mortgage, she goes to church, gardens, goes out to eat with friends occasionally, flies out to see family or moves closer, and drives her car 11,000 miles a year, mostly to the grocery store and to the Italian restaurant on Tuesdays for lunch with the ladies gardening club. That is a good life.

With the remaining $1,900,000 I would open a TreasuryDirect account for her since short term T-Bills are over 5% interest right now.

All she has to do is push a button, set a reminder on her iPhone to push another button in 6 months, and is collecting over $96,000 in income direct from the US Treasury.

The income comes out to a bit more than 5% on the 1,900,000 for the year if you roll the interest from the first 6-month T-Bill into the second one.

The good news is with $1,900,000 in savings at a 5% interest rate she can sustain her lifestyle for the rest of her life, possibly without ever drawing down the principle depending on what rates and inflation do in the future.

This doesn't even count social security, survivor pension, or other sources of income like rental property if she has one.

What she absolutely doesn't need to do as a 70 year old widow is think about US housing inflation, S&P500 as hurdle rate for investment return, look at which foreign companies have majority family ownership, cashflows, competitive moats, a concentrated foreign portfolio to balance broad US equity exposure, what 5% interest rates means for government debt to tax receipts, consequences of US blowing up Nordstream for global energy infrastructure combined with useful idiots who believe net zero without nuclear making us slaves on the WEF plantation in the future, gold, bitcoin, how Ethereum could be used by existing institutions to hide behind

a veil of democracy in the future, CBDCs, why real estate is still at 5% cap rates with 6-month treasury at 5%, what it means for the world when the US gov no longer promotes based on meritocracy and DEIA now accounts for 25% of my promotion so I'll never get promoted out of the field, why I don't really give a fuck about that and want to learn local real estate in the future, how Chinese yuan went from 0.4% trade between Russia and China to 14% in last few months, how stupid it was for US, UK, and EU to confiscate FX reserves and confiscate personal property without a trial, or any of the other things I think about as a global investor focused on ample liquidity and a collection of permanent assets since I will do this the rest of my life.

She shouldn't think about any of that at 70 with $1.9 million and her house paid off.

She can hit a few buttons a year, make $96,000 at current interest rates, transfer the interest to her bank account and enjoy life.

If she wants to plan further than that for the next generation, she can, but that is up to her.

If she did want to help the next generation, would look at three big things.

Long term care insurance since no one wants to be a burden to their family and it is expensive, make sure her will is up to date, and talk with a CPA on how best to start transferring money tax efficiently to *only* people in the next generation who are smart with money, which will also help shelter her savings from long term care facilities if that becomes a reality later in life.

Then make sure everyone knows the plan so there are no surprises.

Yes, people will have their feelings hurt. Better to hurt feelings now so she can enjoy her life and be happy knowing everything is taken care of instead of leaving that for after she's gone.

If she doesn't want to hurt people's feelings or do this planning she's not alone. This is actually the path most people choose, why most families never build any wealth, and why even most wealthy families lose it all in three generations.

It is also why politicians don't need to redistribute wealth, families do a great job on their own.

I also wouldn't let an investment advisor near her.

The entire reason I started to teach myself how to manage my own money is because I could never find an investment advisor who was willing to show me his personal investments and net worth.

Why would you take advice from someone who is poorer than you and is not taking the same risks they are telling you take?

It never made sense to me. That would never fly in my profession.

Imagine walking into a mission brief:

Ok gents, so you've never seen me win in a stressful situation with my life on the line, but trust me, I'm way better at this than you, in fact I'm a professional while you are all amateurs.

I will be telling you exactly what you should be doing to be successful on this mission while not going with you. You will take all the risk, and if it goes well, I will take all the glory. If you don't survive, well, we all knew there were risks, and I will suffer no consequences for it going wrong.

While you are out there risking your life, I will be here in the air conditioning, safe, drinking coffee, and getting Insta handles from the intel hoes on TDY.

But look, don't worry, if something happens on mission that I didn't plan for, I'll see it in real time on JLENS and call you while you're being shot at to tell you exactly what to do before leaving the SCIF to get a sandwich before the chow hall closes while you're still engaged.

And if you happen to die out there while doing what I told you to do, well we can't see the future, now can we? That's no one's fault ok?

Let's not focus on the negative though, think about the upside.

If you *do* make it out alive, I'll write you up for a medal while I put myself in for a higher one and get promoted off the risk you took.

Sounds insane when we apply what most investment advisors do to the real world in a profession where you take real risks with your life, doesn't it?

There is zero difference between risking your life and risking your savings.

You gave up years of your life to earn that money. It is irreplaceable if you lose it, so why would you not expect those responsible for it to treat it as if they are responsible for your life?

Keep professionals away from your parents unless they can show you their own success and they are wealthier than you.

And even then, I would still only do the minimum investment.

Don't put yourself in a situation where you are depending on a stranger for your future, no matter what they show you. Building trust takes time, and ethical people you want to work with the rest of your life will understand and respect that.

Short-term T-Bills > FDIC

My friend asked me why short-term treasuries instead of FDIC insured savings accounts and CDs, which is where his mother has her savings currently.

She wants safety and the ability to access her money (liquidity) with zero risk above all.

She's not the only person I know who wants to take no risk with her savings and has multiple savings accounts, opening a new savings account once she hits the $250,000 FDIC insured cap on a previous account.

I know enough people like this I wonder if the only thing keeping banks liquid is Baby Boomers with maxed out savings accounts because they want safety and liquidity with zero risk are mistaken thinking FDIC means their bank deposits are guaranteed by the federal government and they don't know they can buy T-Bills online.

Whereas they known Martha at the local branch for twenty years and have fond memories of buying CDs in the 1980s so that is what they do, taking more risk for less return on their money.

I would do short-term T-Bills over CDs or FDIC insured savings because they are issued by the Treasury Department, 100% guaranteed by the US government, and are currently paying more interest than an FDIC insured savings account or bank CDs.

You do not deal with a private institution at all buying them and you get paid more.

I have no idea why a six-month treasury bill pays a higher interest rate than a 1-yr bank CD, but that's the world we live in right now, where you get paid more for less risk, so ok.

When you hold cash in an FDIC insured bank account, or buy a certificate of deposit, you are dealing with two private institutions to ensure you have access to your money when you need it and you do not lose money.

You are dealing with the bank who holds your cash and the FDIC which insures you will not lose that cash in your bank account.

FDIC stands for Federal Deposit Insurance Corporation. The FDIC does not operate on funds appropriated by Congress and is not part of the US Treasury.

That is an important distinction, whereas Treasury Bills are issued directly by the Treasury Department and guaranteed by the US government to be paid.

The Federal Deposit Insurance Corporation (FDIC) is an independent agency created by the Congress to maintain stability and public confidence in the nation's financial system by: insuring deposits; examining and supervising financial institutions for safety and soundness and consumer protection; making large and complex financial institutions resolvable; and managing the resolution of failed banks.

The FDIC was established under the Banking Act of 1933 in response to numerous bank failures during the Great Depression. The FDIC began insuring banks on January 1, 1934. Today, the basic insurance coverage amount for deposit accounts is $250,000.

The FDIC does not operate on funds appropriated by Congress. Its income is derived from insurance premiums on deposits held by insured banks and savings associations and from interest on the required investment of the premiums in U.S. Government securities. It also has authority to borrow from the Treasury up to $100 billion for insurance purposes.

https://www.federalregister.gov/agencies/federal-deposit-insurance-corporation

The FDIC was established in 1933 in direct response to runs on banks during the Great Depression where people did not trust banks to have the reserves they said they did as people were wiped out in the stock market using money they had borrowed from banks.

A direct parallel would be crypto in 2021, where everyone from hedge funds to individuals took loans against crypto holdings…to buy more cypto.

When hedge funds started to blow up and FTX was exposed for fraud, people didn’t know who was being honest and had reserves, but they weren’t going to stick around and find out, so everyone started taking their remaining money off exchanges and lending platforms to cold wallets.

Similar thing happened in the US banking system in 1930.

It started with a bank called the Bank of the United States based off a false rumor they refused to sell a man’s stock. As the rumor spread, thousands of people gathered to get their money out. Fearing a run on the bank, the directors asked the big Wall Street banks for help.

The bank’s clientele was blue collar and the big Wall Street banks refused to help, letting the bank go under. There were some who advised against letting the bank fail, saying it would erode confidence in the banking system and start a larger run on banks.

The big Wall Street bankers didn’t listen and they let the bank fail. This was December 1930.

People started to lose faith in the banking system and for the next two years banks continued to fail as people took their money out and held onto it at home, not knowing which banks could be trusted.

This is what my Great-grandfather was caught in.

After being elected, President Roosevelt created the FDIC in 1933.

The FDIC was designed to stop a repeat of the failure of *one* bank eroding public confidence in the banking system and starting a chain reaction where everyone starts taking their money out of the banking system.

The FDIC was never designed to provide *systemic* insurance. This is an important distinction.

Banks have to pay an insurance premium to have their deposits insured by the FDIC.

FDIC is like a group insurance policy for banks, where in the isolated event that one fails, the FDIC pays out to makes depositors whole, up to $250,000 in deposits per account.

This is not how Baby Boomers are using FDIC insured accounts today. They are using FDIC insured accounts as systemic insurance where they want zero risk and liquidity *no matter what happens in the world* because their savings is irreplicable.

Systemic Risk

The difference between an isolated event and a systemic event would be comparing Bank of the United States failing to Long Term Capital Management (LTCM) blowing up in 1998.

LTCM was a hedge fund in the 1990s which used highly leveraged trading in global markets.

Most people at the time thought the partners who came up with the strategy were geniuses, the theory being that by leveraging assets 25 to 1 in multiple markets around the globe that those markets would never be correlated to each other.

The problem is the world loves to do things people don't expect all the time.

When events like that happen, the correlation of everything in interconnected global markets goes to 1 and everything moves together. Recent example of this would be Covid in 2020.

In 1998, it was Russia defaulting on its local sovereign bonds. People did not expect that to happen and investors around the world started to move to quality assets only.

When this happened, LTCM equity fell from $2.3 billion to $400 million in less than a month while they owed $100 billion in liabilities. They were now leveraged 250 to 1 with markets illiquid as everyone was spooked by the Russian default and only wanting quality assets.

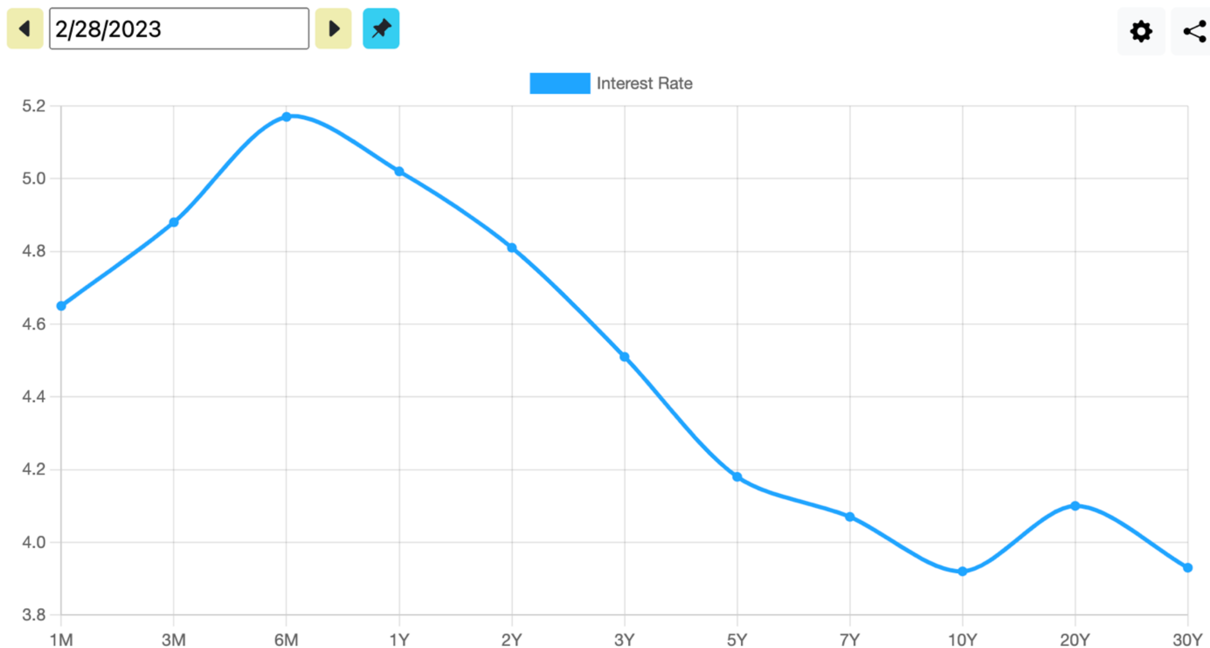
The fear became if LTCM was allowed to fail it would cause systemic risk to the financial system because of how much money they owed across markets due to being leveraged 250 to 1, so the Federal Reserve organized the first bailout of $3.6 billion across 14 banks.

Institutions didn't learn to be more responsible from LTCM blowing up.

They learned to become large enough to cause systemic risk to the financial system so the Federal Reserve would not let them fail, which is exactly what happened in 2008 with the Great Financial Crisis and again in 2020 with Covid.

I have little doubt that if a systemic risk event happens which affects people's savings account the public outcry and political gains to be made will be so great that depositors will be made whole.

My issue is why take additional risk with dealing with banks when you are not being paid to and if you want safety and to make sure you don't lose money no matter what happens in the world as a 70-year-old widow then buy US treasuries.



Why 6-month T-Bills

The only difference between a Treasury bill, note, and bond is the duration of the debt. Bills mature in one year and less, notes 2 to 10 years, and bonds are for 20 or 30 years.

Reason to buy 6-month T-bills is simple, look at the yield curve above, US government is currently paying you high interest for not taking any duration risk.

Duration risk for me is if the value of the bond drops due to interest rates going higher before I need money so I have to sell the bond before maturity and I lose money on the bond.

By having a year's worth of money in a bank account and then buying 6-month T-bills with the remaining $1,900,000 I don't have any duration risk because the T-Bills will mature in six months and have a year of cash on hand for peace of mind.

Doesn't matter if interest rates go higher. In fact, being in short term treasuries, that is a good thing. Means every time six-month T-Bills mature, can buy new bills that pay a higher interest rate and make more money.

Do interest rates going higher have ramifications for the global economy, young people trying to buy houses with 7% 30-yr fixed mortgages, businesses cost of capital, and poor people just trying to afford food in frontier markets after the US made the largest exporter of fertilizer in the world a global pariah?

Absolutely, but none of that is a concern for a 70-year-old widow with a paid off house and $1.9 million who just wants to not lose money and is thrilled that she gets to make even more money the next time she clicks a button on TreasuryDirect and buys more six-month T-Bills.

Make Your Own Decisions

No matter what you or your parents decide to do, the most important thing is to not outsource your thinking to someone else. Make your own decisions. Adapt to what you are being given.

Does it make sense to buy a 1-year certificate of deposit paying 4.5% or have multiple FDIC savings accounts earning 0.15% from a bank that pays less than buying 6-month T-Bills paying 5% from the US Treasury?

Not to me it doesn't.

I think I should be compensated for taking additional risk, so if a bank wants me to buy a CD from them and keep money deposited then they should pay more than what the Treasury Department is paying me.

If you have parents who think the FDIC is the holy grail, try to explain to them they are actually taking additional risk by depositing cash into the bank and trusting FDIC which is not federal or designed to protect them from systemic risk. The FDIC was designed to prevent *one* bank going under from becoming a systemic risk to *other* banks.

The problem is there is so much leverage in the global financial system now because institutions learned the lesson if they are large enough to cause systemic risk they will not be allowed to fail so that is what they did.

Do I think there are risks to holding US Treasuries?

Sure, but I don’t think one of those risks is the US government not paying interest on treasuries when the US is pushing for a war with Russia and China to defend dollar supremacy.

The risks to holding treasuries I think about is totally outside the scope of this article and not something a 70-year-old Baby Boomer who only wants safe income and doesn’t want to lose money needs to be concerned with.

If they are concerned about the risks of holding US Treasuries, or want to be, then I would suggest talking with their kids, identifying which ones are smart with investing, then talk to the CPA on how to transfer money tax efficiently to the next generation and let the next generation worry about managing that risk because we’re the ones who will have to deal with it.

See you out there, RC