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In our previous commentary, we put out a general challenge to our readers to engage in some forward thinking. On the not-too-distant horizon, there are growing legions of aging Baby Boomers in North America, Western Europe and Japan that will begin to cast sweeping shadows over economies, financial markets, healthcare infrastructures and political parties. In terms of our AARP framework, the time is approaching when we must *react* and determine how best to *accumulate*, *allocate* and *protect* assets when Baby Boomers on 3 continents are crossing the retirement threshold in greater and greater numbers.

But there is a more pressing need to *react*. Up until very recently, the mainstream markets appeared to be in breakaway mode reminiscent of late 1990s, although the underlying reasons were anything but clear. Given the relatively weak US economic fundamentals, we postulated that an overabundance of domestic credit and the booming economies of Asia had provided the impetus. Unfortunately, the attractive double digit returns achieved by many investors in recent years have been somewhat of a mirage. When measured against a fairly steep rise in the cost of living for most Americans, the market gains have produced much less purchasing power than in years past.

In our quest to accumulate wealth, this raises the question of whether the glass is half empty or half full. Because purchasing power is extremely relevant to achieving meaningful lifestyle objectives, we suspect that the glass may be half empty and that we have reached an important inflection point in the way we need to view investment goals, strategies and risks.

Before proceeding further, let us remind ourselves that accumulating wealth is not an end in itself but serves a grander purpose. We are on this planet to live as long as possible in an acceptable comfort zone, which encompasses one's standard of living, physical health and spiritual well-being. One's success in accumulating wealth helps to create the comfort zone.

Let us continue with an interesting analysis.

WHAT'S IN YOUR WALLET? PART I

A peek into our pocketbooks reveals that they are stuffed to the gills with US Dollars. That used to be a good thing. Long the world's reserve currency, the US Dollar is in the process of being bulldozed aside by currencies that are associated with sound financial management. This is not idle speculation on our part. There is ample evidence.

Decades of debts, deficits and money creation have taken their toll on the US Dollar and the creditworthiness of our country. Many of our key trading partners are now voting to part with their surplus Dollars for other currencies as well as tangible resources. Countries such as China, Japan, Russia, Iran and other Middle Eastern oil exporters now perceive their Dollar holdings as a depreciating asset. In recent months, they have gone public with their intent to no longer accept "American Express" for new purchases. Make no mistake about it that our standard of living is going to be negatively impacted by this breach in the Dollar fortress. Specifically, we can expect permanently rising costs for many essential goods and services, e.g., energy, food, healthcare and housing, not to mention credit.

In terms of our AARP framework, it is time to *react* to this erosion of our purchasing power and look to *allocate* and *protect* assets via strategies that may strike us as a bit unconventional. Some historical perspective is in order.

Our current predicament can be traced all the way back to 1913 when the Federal Reserve banking system was established by a hasty act of Congress in response to the overtures of private financial interests in the US, England and France. The following year marked a destabilizing political assassination in Eastern Europe that escalated into a trans-continental war that could not be bankrolled via conventional means. Conveniently, the newly-created Federal Reserve found a way to create the money to pay the war bills of the US, England and France. At about the same time, the Russian revolution came into play and was financed by foreign interests. One suspects that the Federal Reserve was operating behind the curtain.

In a nutshell, a new financial standard had been invoked. With the Federal Reserve system, the US government had the ability to create money out of thin air to paper over massive deficits. The maiden voyage was in war-torn Europe. As the victorious nations extracted severe war reparations from Germany, the once-prosperous nation was left in a state of poverty and despair. A bankrupt German population opened its arms to the Nazi Party. The rest is history. Since then, war after war has been sanctioned and fought because governments have been able to create money at will. This type of thinking and behavior has spilled over into entitlement programs, which are popular ways for politicians to attract votes.

As we fast forward from 1913 to 2007, we can link nearly 95 years of undisciplined financial stewardship to a long series of bubbles in asset prices, ranging from stocks, bonds and commodities to real estate, art and all types of collectibles. The bulk of the damage has been inflicted during the past 35 years. The marker was 1971 when President Nixon abruptly informed foreign creditors holding Dollar IOUs created by President Johnson's deficit spending spree (i.e., the Vietnam War and the Great Society entitlement programs) that they could no longer redeem their Dollars for gold at Fort Knox.

Ever since the 1970s, Americans should have known that someday the Dollar merry-go-round would stop and the ride would be over, but human nature has been known to mimic the behavior of an ostrich. Now the Dollar party is winding down but only after it has spread to all four corners of the globe. The proliferation of Dollars outside the US has created asset bubbles (e.g., real estate) across China, Europe and the Middle East. Globally, these bubbles are beginning to burst (e.g., vastly overbuilt property markets in China, England, Spain and the US) and necessitating even more money creation to paper over the gaping losses and prevent cascading loan defaults from triggering a global recession or worse.

The important point is that as the world increasingly demands fewer Dollars, the currency loses value. A Dollar buys less. Conversely, things priced in Dollars become more expensive. This is the new lay of the land. Consequently, our target investment returns need to be elevated so that we can hope to maintain an acceptable standard of living and stay within our desired comfort zones. This is easier said than done as higher returns necessitate the assumption of more risk and the acceptance of increased volatility. It is not unlike living on a fault line or in a tropical storm zone. There will be many sleepless days and nights.

In Part II, we will offer some action steps for those who are ready to *react*.