Coronavirus Targets Baby Boomer Health and Wealth

- I believe that most baby boomers do not fully grasp the investment risk they are taking
- There's nothing like a full-blown panic for sensitizing investors to risk
- I do not make market predictions, but I'm warning boomers against taking risks they don't fully comprehend

We're still learning about the Coronavirus, but a couple things are well understood. Older people in poor health are the most vulnerable. Also, the stock market plummet has hit our 78 million baby boomers the most because they are in the Risk Zone spanning the 5-10 years before and after retirement, when savings are at their peak. We know what boomers need to do about their health vulnerability – isolate. But what should they do about their loss of wealth?

For some time now I have been warning baby boomers that they can't afford the investment risk they have been taking, but nothing brings home the reality of risk better than a full-blown panic. No one knows yet how broadly the Coronavirus will spread and what the full extent of its economic consequences will be, but stock markets around the world are plunging. Every American has lost, on average, about $22,000 apiece so far. We're in a bear market, defined as a loss of 20% or more.

I warned baby boomers about the Coronavirus, and 9 more threats, in a video that aired 2 weeks before the virus triggered a market sell-off. I'm not looking for an "I told you so." I simply want boomers to get in touch with their ability to take investment risk. I'm probably wrong about some baby boomers, who understand the risk they are taking and are prepared for losses. But my belief is that most do not fully appreciate the risks they are taking. Unlike younger people with a lifetime of paychecks ahead of them, baby boomers don't have time to recover from a market crash.

I am a fear monger. I fear that my fellow baby boomers will get seriously burned. I have not forecast market crashes. Rather, I've pointed out that a crash is likely during this decade, a decade that finds most boomers in the Risk Zone where investment losses can result in sacrifices to lifestyle, and running out of money.

What to do now?

If you're a baby boomer, use this opportunity to reduce your investment risk. Recent losses have done part of the job for you by reducing your equity exposure. It's like using weight loss suffered from an illness to launch a diet. My recommendation for those in the Risk Zone is to be no more than 30% in risky assets, defined as equities (stocks, real estate, commodities, etc.) and long term bonds, with the balance in Treasury Bills and intermediate TIPS (Treasury Inflation-Protected Securities).

If you're riskier than my recommendation, consider selling. But don't sell to time the markets. You'll just be disappointed if markets recover, as they eventually will. Sell so you can sleep at night, limiting risk to what can be afforded in the Risk Zone. Critics of my recommendation ask "So when do I jump back in?" suggesting that I'm timing the markets. The Risk Zone ends about 5-10 years into retirement, and then would be the time to get back in, gradually increasing risk through time.

This too will come to pass

In its article on past market declines, ***The Death of Equities Redux***, Janney Montgomery Scott reports that markets generally recover in 5 years, and there's been only one instance when recovery took longer than 10 years. Furthermore, there have been five recent instances of health scares that all seemed awful at the time, but were fairly quickly resolved – SARS, H1N1, MERS, Ebola and ZIKA. Coronavirus might be worse, but science has had five recent rehearsals that suggest otherwise.

Baby boomers should use this scare to protect themselves, reducing exposures to risky investments.