The MEICAP Model

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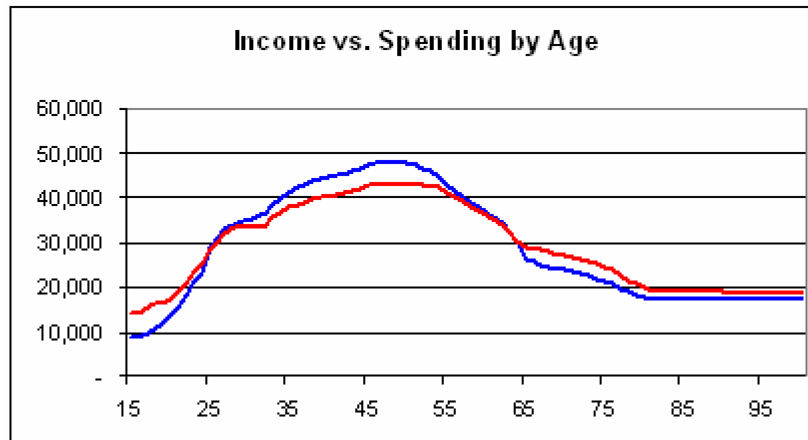
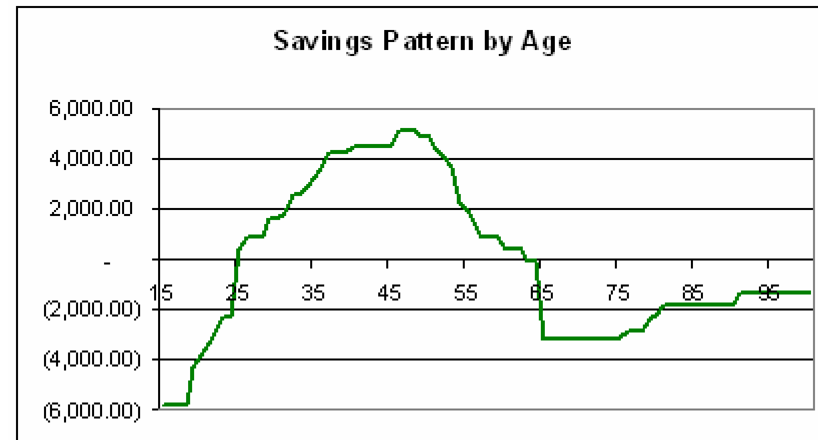
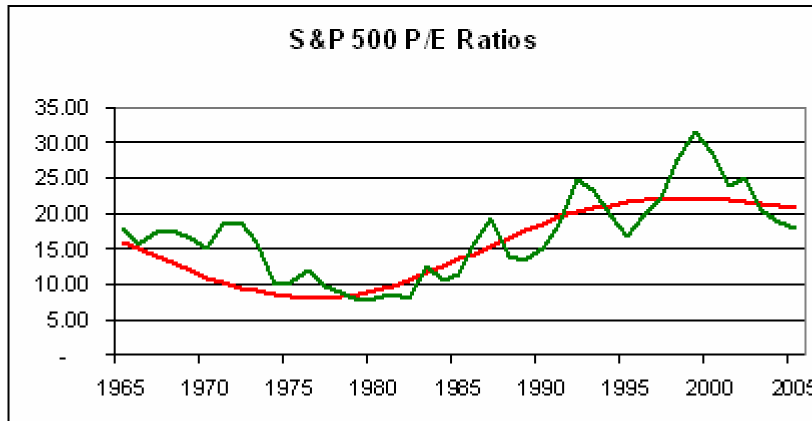
The model is built on a demographic platform that calculates existing population levels by age as well as fertility rates and projected population figures through year 2060. The platform then incorporates proportional income, spending and savings patterns by age to calculate the Supply and Demand for investment capital in both the stock and bond markets. This Supply/Demand relationship becomes the foundation for P/E ratios and interest rates.

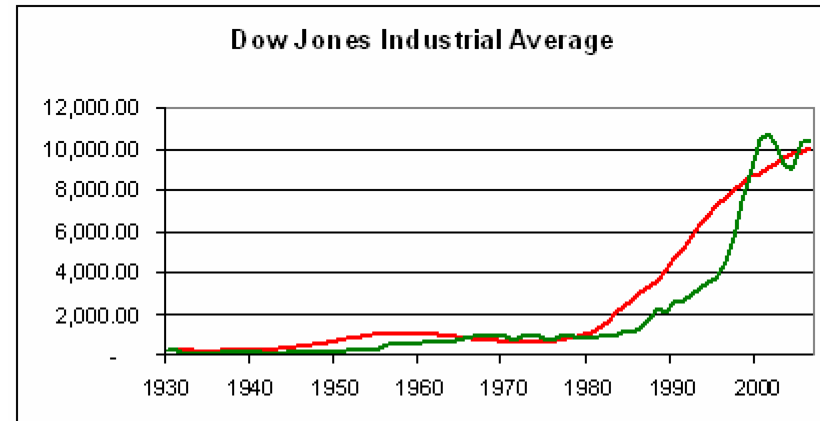


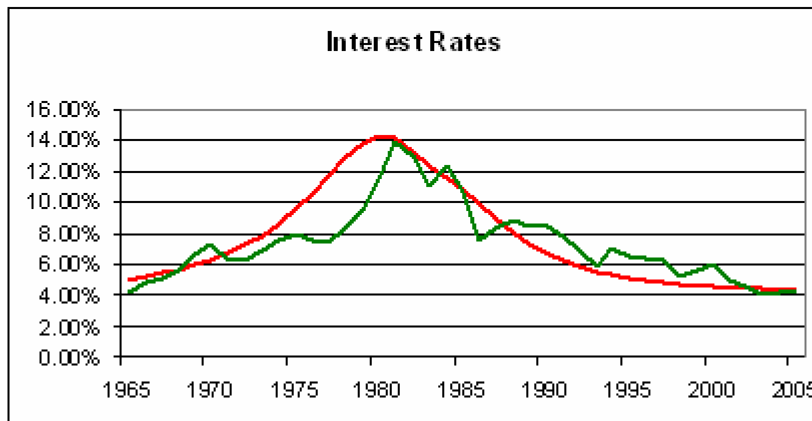


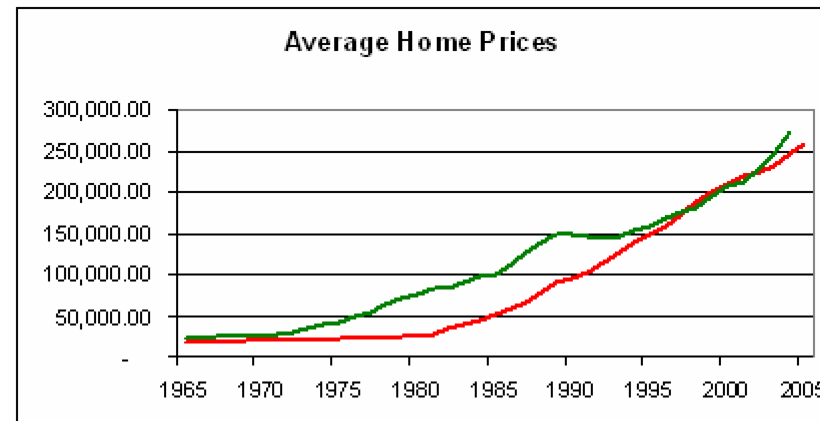
The population's income, spending and savings patterns are well documented by the US Census Bureau. As displayed above, the average person spends more than they earn between ages 15 and 24, resulting in negative savings. Between ages 25 and 63, the average person earns more than they spend resulting in positive savings. The average person reaches their peak spending year at age 46. After 64, the average person once again spends more than they earn, drawing down their accumulated savings. This predictable pattern combined with population bubbles like the Baby Boom and the Echo Baby Boom create shifts in the Supply and Demand for investment capital, causing P/E ratios (stock market) and interest rates (bond market) to rise and fall. This process combines with cumulative spending (or "earnings" from the corporate perspective) to forecast stock valuations. The same process impacts the affordability of housing and maps a ceiling on how high prices can go at any particular time. This methodology created the charts that follow.

Historical Modeling



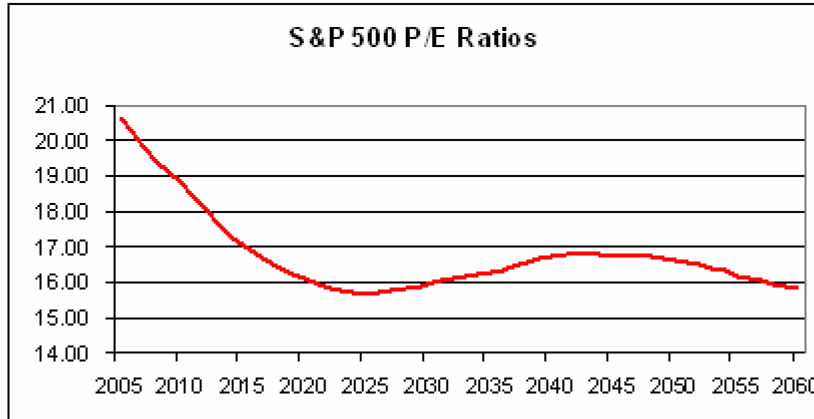


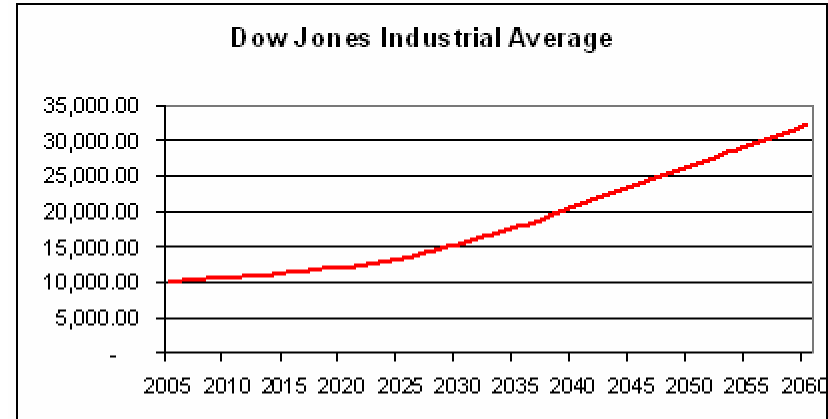


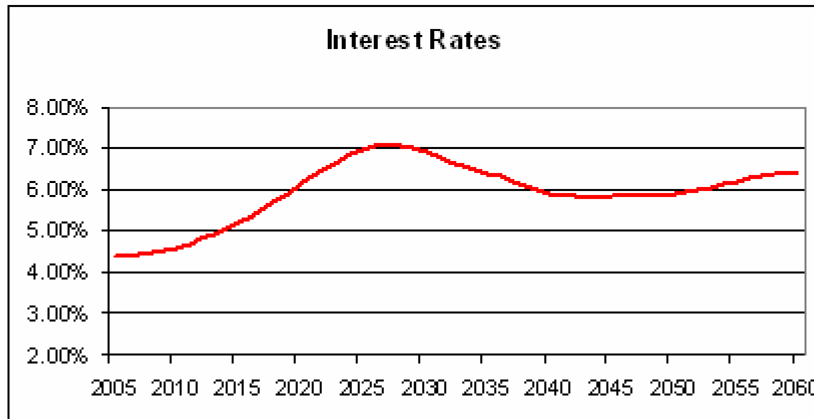


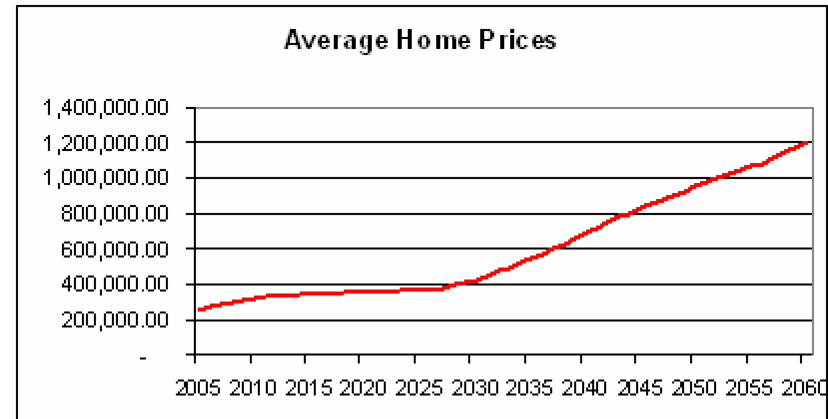
As displayed above, the model has independently mapped every major economic phenomenon for the past 40 years with nothing more than population data combined with income, spending and savings patterns. It makes sense, for example, that interest rates were high when the majority of Baby Boomers were between 15 and 24 years old, most with negative savings. The model demonstrates that the high interest rates of the late 70s and the bull market beginning in 1982 resulted from predictable shifts in the Supply and Demand for investment capital; making it reasonable that population modeling and documented spending and savings patterns should yield accurate projections of future stock and bond market conditions.

Future Forecasting









Looking forward, the model predicts a soft sideways stock market restrained by sinking P/E ratios, gradually increasing interest rates and a leveling off of the housing market after 2010 with the next major bull market accelerating in 2020. Interest rates will swell beyond 7% (10-year treasury notes) by 2026 before dropping again through 2044. The Supply of investment capital is expected to shrink considerably as the Baby Boomers retire, thereby reducing returns in financial markets. Furthermore, the coming bull market fueled by the Echo Baby Boom generation (children of the Baby Boomers) will yield lower returns than the bull market just past because their proportion of overall population is much lower than the original Baby Boom generation.