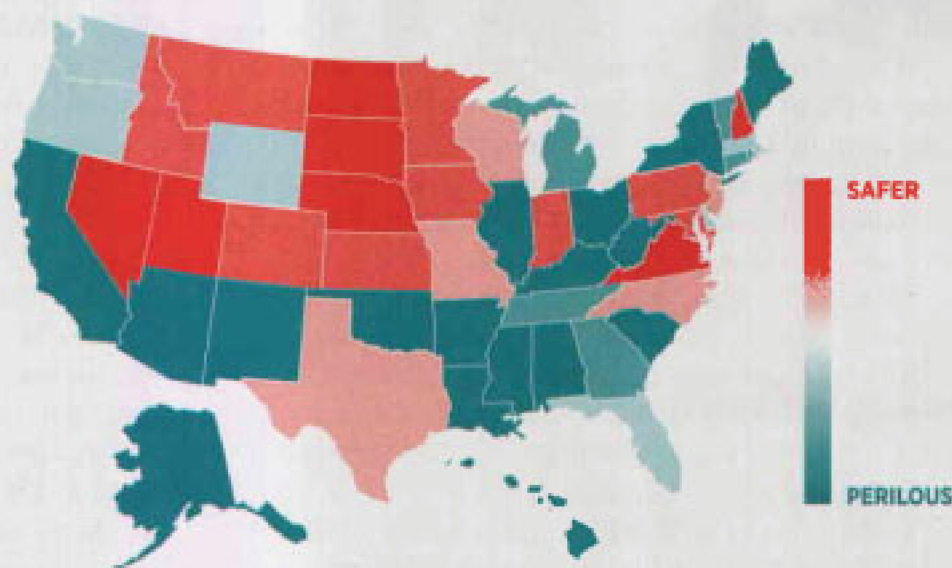
The biggest stumbling block is that the federal deficit is so much worse today. At some point, Buckley says, the Federal Reserve and Chinese banks will have their fill of U.S. Treasury bonds. The federal government has to get its deficit down to a sustainable level—meaning a deficit no larger than the growth in nominal GDP. At the moment the deficit is roughly double that.

What about curtailing itemized deductions as payment for lower rates? That would be problematic, says Buckley. Eliminating all deductions would be, besides politically close to impossible, surprisingly modest in its yield—good for only $2.5 trillion over a decade.

The country may yet grow its way out of the fiscal crisis. But you have to allow for the rising cost of government, college and medical care. With that bleak reality in mind, consider these strategies for wealth building.

WHERE IS IT SAFE TO BUY A HOUSE OR A MUNI?

DON'T PUT CAPITAL IN STATES THAT SHOW UP BLUE ON THIS MAP. THESE ARE THE MOST EXPOSED TO FISCAL STRAIN, MEASURED BY COMPARING THE NUMBER OF NEEDY PEOPLE—PEOPLE ON THE DOLE OR THE GOVERNMENT PAYROLL—TO PRIVATE SECTOR EMPLOYMENT. IN SICKLY CALIFORNIA THE NEEDY/PAYING RATIO EXCEEDS 1.



GOVERNMENT WORKER COUNT EXCLUDES FEDERAL EMPLOYEES. FORMULA ADDS 1 TO THE NEEDY POPULATION FOR EACH $100,000 OF UNFUNDED PENSION LIABILITIES. *SOURCES: BUREAU OF LABOR STATISTICS, KAISER COMMISSION ON MEDICAID; PENSION STUDY BY JOSHUA RAUH AND ROBERT NOVY-MARX.*

AGE 25–35

1. Buy stocks. Brush off that ominous market crash during election week. If you're buying to hold for 40 years, the fiscal cliff, the possibility of a recession in 2013 and the antics of a lame duck Congress don't matter. The ability of risky investments like stocks to reward long-term holders is what matters.

James Grant, the acerbic publisher of *Grant's Interest Rate Observer*, never has a kind word for profligate governments and the central bank money printers who sustain them. But even he found a stock on the Athens exchange that he liked. In February he told his readers to buy Metka, a constructor of power plants. It so happens that Metka has most of its payroll in Greece and gets most of its revenue from outside the country. That's a good combination. Including dividends, the stock is up 48% since Grant recommended it.

What does Grant like now? MetLife, a life insurance company that would see an earnings uptick when the Federal Reserve stops suppressing interest rates. For an ETF portfolio built around sectors that should do well in a second Obama term, see box, page 120.

2. Buy a house—in a strong state. A strong state is one that isn't being crushed by a big government payroll, unfunded pensions and welfare caseloads. Virginia, North Dakota and Nebraska are strong states. California, Mississippi and Illinois are weak ones. The map above gives you the picture.

If you get a job in Charlottesville, Va., buy a condo. If your career takes you to Chicago, rent. A home in Illinois may have your name on the deed, but it really belongs to the teachers' retirement system. When the tax police come for you in the middle of the night, you may succeed in fleeing across the border, diamonds sewn into your jacket lining. But you'll have to leave the real estate behind.

3. Figure on rising local taxes. You get a bigger salary in San Francisco than in Omaha to make up for the higher taxes and cost of living. Whatever that differential is, assume it will get bigger.

State and local income and property taxes are deductible on federal returns, lessening their bite. But that deduction would be clipped under any scheme to limit itemized deductions (a concept endorsed by both Barack Obama and Mitt Romney, at least for the better off), and it's already useless for people who have fallen prey to the alternative minimum tax.

California voters just approved a tax boost to pay for a high-speed rail link. (The ostensible purpose of the tax was something else, but dollars are fungible.) Expect more of this.

4. Buy your own medicine. The Medicare system is insolvent. One answer, offered by failed veep candidate Paul Ryan, is to cut government subsidies for coverage. The other, enshrined in statutes now on the books, is to make the benefits progressively worthless at the other end by chopping doctor fees. Sooner or later that will force patients to go outside the system.

Solution: Don't count on Medicare. Save on your own for medical care during retirement.

One way to get a start is to persuade your employer to set up a high-deductible health insurance plan coupled to a health savings account. As the story on page 184 explains, you and your company between you can put $6,450 per family in an HSA for 2013. The contributions reduce your taxable income. Inside