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# Did You Know...?

News you can use for your financial well-being

## July, 2006

- ✓ **Protect Yourself from Fraud**
- ✓ **Medicare-less**
- ✓ **Success Stories: A Tough Decision**
- ✓ **Timely Tidbits**

### Medicare-less

Think Social Security has problems? Take a peek at Medicare—that's expected to implode decades before Social Security. This is the conclusion reached in a recent study from the Congressional Research Service, the public policy research arm of the United States Congress. In their May 3, 2006 report, CRS estimated that the Medicare program would become insolvent in 2018. Now that former Fed Chairman Alan Greenspan is retired, he too has felt more compelled to point out the problems in Medicare. Greenspan said in a May 19, 2006 speech, "There is a strong probability the government will not be able to fulfill its promises to those tapping the retirement health-care program after the Baby Boom generation."

It used to be that financial security in retirement meant the ability to travel or play lots of golf. Over the next 20 years, we may see the value of ensuring your own financial security takes on much greater importance as the quality and breadth of government-provided services gets worse and worse.

### Protect Yourself from Fraud

Identity theft is a growing problem that plagues tens of thousands of people each year. It's almost a daily occurrence that we learn of a laptop containing personal information being stolen, or a database being hacked into. While victims often are not financially liable for damages suffered from identity theft, it can take months if not years to clear one's record and resolve the problems caused.

One solution to insulate yourself from identity theft is to place a "security freeze" on your credit files. This prevents anyone from accessing your credit rating or history. Since most companies will not open a credit account without checking your credit history, this essentially prevents any unauthorized party from establishing credit in your name. Even if someone gets your Social Security number and other sensitive information, they wouldn't be able to establish credit in your name.

To place a security freeze, you must write to each of the three credit bureaus: Experian, Equifax, and TransUnion. Each company also requires \$10 to freeze your account. You can access full info on how to do this via the State of California website at <http://www.privacy.ca.gov/sheets/cis10securityfreeze.htm> or just call me and we'll mail you the instructions.

If you ever want to establish new credit, you can simply call the credit agencies and have them temporarily lift the freeze for a specific amount of time or for a specific creditor.

On a related note, if you want to stop getting the multitude of "pre-approved" credit offers that clog your mailbox, you can call 1-888-5OPTOUT (1-888-567-8688), or go to [www.optoutprescreen.com](http://www.optoutprescreen.com).

Finally, be sure to regularly request your credit report to check for any fraud proactively. You can get a free report once per year by going to [www.annualcreditreport.com](http://www.annualcreditreport.com) or calling 1-877-322-8228.

# Success Stories: A Tough Decision

I've recently helped a number of clients work through decisions that were both economically significant and highly emotional. Psychology and emotion often play a big role in money issues, and often they cloud the decision-making process and result in poor decisions being made. Think of the old investing adage that markets are driven by two emotions, fear and greed. Unfortunately, these emotions and many others often override common sense and logic.

When you're facing a big decision around money, try not to make the decision purely on what you perceive the financial benefits to be. Consider first how the various options support your life and where you want to be, physically/financially/emotionally. For example, selling investment property, cashing out of the stock market, or changing careers are all emotionally-charged decisions that frequently challenge us. Here is what I would suggest as the order in which to weight these decisions:

1. Does the decision better my life? Will my life be more like my dreams/goals as a result of this action?
2. Is the timing right for this decision? Are the economic/market factors pointing towards it being a good time to take this action?
3. What are the relative economics of the decision? Will I be as well off as a result of this decision?

Personally, I would put the greatest weight on the first question, and not consider the rest until that one is answered. The impact on your life is not only far more important, but it's also the only one whose answer you know with certainty. It will only be after a period of time that you can look back and determine if your assessment of the financial elements was correct. However, even if you predicted the economics of the decision perfectly, if the decision doesn't better your life you may still live to regret it.

## Timely Tidbits:

- ✓ Ever wonder how you could sell millions of dollars worth of stock and pay no taxes? It's easy—just become Treasury Secretary! The new Secretary, Henry Paulson, is required to sell his \$500 million of Goldman Sachs stock to avoid conflicts of interest, but IRS rules allow him to avoid paying the estimated \$50 million in taxes on the roughly \$325 million in capital gains if he reinvests the money in government bonds or a diversified index.
- ✓ Ticking time bomb? It is estimated that \$300 million in adjustable-rate mortgages will readjust for the first time in 2006. Next year, the number is \$1 trillion! Three years ago, ARM rates were approximately 3.75%, while today they are 6% (fixed-rate mortgages are closer to 7% now). This will represent a substantial jump in monthly payments for these mortgage holders, and this could impact the real estate market.
- ✓ With commodity prices rising, it now costs more to produce coins than they're worth! A penny costs \$0.014 to produce, a nickel \$0.064!

**Quote of the month:** "Do what you love, love what you do, leave the world a better place and don't pick your nose." **Jeff Mallett**, *Frazz*, 08-03-04

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