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Did You Know...?

News you can use for your financial well-being

May, 2007

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Goldilocks or Hemlock?

As you've undoubtedly seen in the financial headlines, the US stock market has been storming to all-time highs recently. Yet on the same page, you've probably noticed stories about rising gas prices, falling home prices, and lower consumer confidence. If things are looking bleak, how can stocks be doing so well?

Remember, the stock market is forward-looking and tries to forecast conditions and events that are 3-6 months in the future. The markets are always looking ahead, not back. Thus, markets right now are forecasting a "soft landing" in the US economy, where things slow down but don't stop, and inflation and interest rates remain low. This is the "Goldilocks Scenario" financial commentators often refer to.

Just because the market is forecasting that scenario doesn't mean it is the only possibility. Remember just 10 short weeks ago when the stock market fell over 7% in a few days? During that decline, the markets were concerned with rising mortgage defaults, unstable foreign stock markets, and increasing tensions in the Middle East.

The risk right now is that the Goldilocks slowdown turns into a mild recession. Over the coming weeks and months, markets will watch closely all economic reports for signs of an economy that is slowing too much. If housing, retail sales, and other key data show too much slowing, our stay at record market highs may be short-lived.

Flurry of Retirement Plan Changes Hitting Plan Sponsors and Participants

By Ray Shojinaga of Flynn, Shojinaga & Associates, Inc.

The Pension Protection Act of 2006 ("PPA") was passed into law last August. It created numerous changes to the compliance rules for retirement plans. These changes have required additional administrative work by Plan Sponsor and provide participants with additional information on their retirement benefits. A number of the provisions became effective in 2007.

Plans allowing participants to direct their investments must provide these participants with quarterly benefit statements. The statements must include information about the participant's total and vested benefits, restrictions on investment choices, information on investing, diversification, and a link to a DOL website, among other items. This information generally will be provided on multiple documents from multiple sources. Most 401(k) participants already received this new information with their first 2007 quarterly statement. Plan sponsors are already helping distribute this information to their participants.

Plan distribution packages are being updated to provide new information about potential tax consequences of plan distributions and new rollover options available to the participant or beneficiary, among other items. One noteworthy change: non-spouse beneficiaries can transfer death distributions to their own IRA and then receive minimal taxable distributions spread over their own life expectancy, whereas, before the change, they received the entire distribution within 5 years as fully taxable income.

The PPA also created two new retirement plan designs. Effective in 2008, the Qualified Automatic Enrollment Arrangement 401(k) Plan becomes an alternative to the current Safe Harbor 401(k) Plan designs. In 2010, the "DB(k)", a combination defined benefit/401(k) plan becomes available to Employers.

The PPA made numerous revisions to the rules affecting qualified retirement plans. These changes increase the information disclosed to participants regarding their retirement benefits, expand rollover distribution options, eased certain reporting requirements for small plans, and introduced two new types of retirement plan designs. While plan sponsors and plan administrators have seen a flurry of activity relating to these new rules, the new laws should be viewed as a positive for plan participants. Each plan should be reviewed to determine how and to what extent PPA impacts its operation.

Ray Shojinaga is President of Flynn, Shojinaga & Associates, Inc. FSA serves as employee benefits specialists and management consultants to a wide variety of organizations.

The Family CFO

One of the most critical positions in any business is that of Chief Financial Officer. The CFO is the person responsible for monitoring the financial health of the organization, and making sure the business stays strong.

Being that your household is much like a small business, who is your CFO? And how does the CFO manage the financial elements of your household?

Having worked with hundreds of successful families in my career, I can tell you that one of the most common traits, particularly among self-made millionaires, is strong household financial management. It's very hard to accumulate large sums of money without paying close attention to budgets and fiscal discipline.

When it comes to how to manage your household finances, I'm happy to share my experience with you, or even roll up my sleeves and get in there with you to get things under control and into a manageable state. Implementing new ideas and breaking old habits requires commitment and self-discipline, so you have to be dedicated to the process to be successful. But if you're tired of the stress that money may cause you and your family, or you feel overwhelmed by the recurring challenges you face as your family's CFO, it's time to grab the issue by the horns and fix it. I can help; just let me know when you're ready to act.

Timely Tidbits:

- The S&P 500 Index recently reached all-time highs, marking a full recovery for the broad US stock market from the dramatic bear market decline of 2000-2002.
- According to a Fidelity Research Institute report produced this month (May, 2007), "real estate has underperformed the average annual returns for stocks and bonds over every 5- and 10-year period from 1963-2005". To access this report, visit www.fidelityresearchinstitute.com
- Be sure to check out the new section of our website, "What's New". In this area, you'll find quick links to all of the newly added content on our website, and timely links to articles and information of interest. Click on the highlighted button on our main page at www.KevenKennedyLLC.com.

Quote of the month: "I say luck is when an opportunity comes along, and you're prepared for it." --Denzel Washington

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