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# Did You Know...?

News you can use for your financial well-being

## July 2007

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### Financing Education

An interesting bill passed in the House of Representatives last week, which may make college more affordable for everyone.

The College Cost Reduction Act of 2007 borrows on an idea used in the UK and other countries to make financing an education more realistic: student loan repayment will be based on income once the student starts working. Under the CCRA, any graduate making less than 150% of the poverty line would be exempt from repaying their loan. Graduates would pay 15% of their income above that amount (above \$15,000) toward repaying the loans. So a graduate making \$30,000/yr would have to pay no more than \$188/mo toward their loan. After 20 years, any remaining balances would be forgiven.

There are also elements of the CCRA which are designed to curb the rapid escalation in tuitions: schools can be put on a "watch list" and potentially cut off from government funding if their tuition rises at a rate significantly faster than the average.

According to pundits, this bill in its current form is likely to be vetoed by President Bush, but a more "passable" version of this is already in the works. The positive thing is that the spiraling cost of a college education has finally caught the attention of the nation's lawmakers, and work is underway to ensure access to higher education for as many students as possible.

If the US is to compete effectively in the global marketplace, an educated workforce is critical for success. Seeing as we all have a stake in the success of our country, this is an issue we should all take interest in and watch closely.

### Stay In Debt

"I don't owe nobody nuthin', and that's the way I like it!" Many people view this statement as a sign of success and financial strength. In some cases it is, but in many situations it's actually an indication of poor planning and missed financial opportunities.

Yes, debt can be a good thing! More specifically, mortgage debt, which, unlike consumer debt (credit cards, car loans) is tax-deductible and carries low interest rates. Paying off mortgage debt is not always a good idea, and in some cases it's a downright bad idea. Before you think the summer sun has fried my brain, let me outline three reasons why paying off your home might not be a smart move for you.

1. **You end up with a lot of home equity but no liquid savings.** Putting all of your cash towards paying down debt can leave you debt-free but also cash-free, and when it comes to funding retirement or other goals, having no cash throws a big monkey wrench in the plans. Accessing cash through a reverse-mortgage or home equity line can be costly and the amount you can access is limited. A balanced savings approach that builds cash savings while also paying down debt over time is often a much better approach.
2. **You can do better by investing the money.** If, for example, you have a fixed-rate mortgage at 6.25%, you may be better served investing the money than paying the mortgage down. Over a long period of time, your chances of earning more than 6.25% are good (a portfolio balanced 50/50 between stocks and bonds has generated an average return of 8.7% over the past 80 years). Also, you leave open the option of taking some or all of the accumulated savings and paying down the mortgage at any time, so doing this gives you maximum flexibility in your financial plan.
3. **Your home equity gets wiped out.** The 4.2 quake in Oakland last week brought back a fear that many of us have forgotten: there's a good chance of a big quake in this area in the next 30 years, according to geologists. In other parts of the country, hurricanes, tornadoes, and other natural disasters put home equity at risk. Even buried gas tanks or shifting hillsides can wipe out a home and its value instantly. If you're not fully insured against these risks (which most of us are not), your nest egg of millions in real estate equity is at risk. In most real estate loans, the lender's only recourse is the property, so in the event of a disaster, one can "walk away" from the loan. Yes, this will impact your credit, but it sure beats having 75% of your net worth wiped out.

Whether paying off debt is good or bad for you depends entirely on your circumstances, so please talk to me for a more individualized recommendation. Hopefully, this column gives you a fresh perspective on why debt may be good for your financial plan.

# Just The Help You Need

The key to meeting financial and personal goals is discipline. Most importantly, your discipline must begin at the source of the issue. For example, if your goal is to lose weight, the first step is to control what you eat.

When it comes to financial goals, the first step is to control your cash flow. This means knowing exactly what income is coming in, and where that income is being spent. The best way to track this is through software such as Quicken, which can generate easy-to-read charts and graphs to tell you where your money is going.

I've used Quicken for my personal and business finances for years, and maintaining the data (recording checks and payments) only takes me 15-20 minutes per week.

The big hurdle in getting onto a system like this is getting started: investing the time and effort in installing the program, setting up accounts, etc. I know there are many of you who understand the benefits of using something like Quicken yet simply don't have the time to get the process going.

I recently met a local businesswoman who can help you overcome that hurdle: for a flat fee, she'll buy, install, and configure Quicken on your home PC. Her services go well beyond this into areas like bill-paying and help with budgeting, but the "Quicken Quick Start Special" was such a no-brainer benefit for so many of you I'm focusing this column on just that service.

If you know you need to take control of your cash flow, figure out where your money is going, and get a budget in place to help you enjoy life while also funding the goals that are important to you, but you're just too busy to sit down and figure out how this stuff works, this service may be just what you need. Give me a call and I'll let you know more details.

## Timely Tidbits:

Negotiations are now underway between the United Auto Workers (UAW) and the Big Three automakers (Ford, Chrysler, and General Motors). The president of the UAW said that the union "is not in the mood to make concessions", while the Big Three automakers lost a combined \$15 billion in 2006. The outcome of these talks could be an important barometer for how much (if any) leverage labor has in the US.

**Quote of the month:** "With most men, unbelief in one thing springs from blind belief in another." Georg Christoph Lichtenberg (1742 - 1799)

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