



KEVIN KENNEDY

Alameda's Wealth Management Specialist



Did You Know...?

News you can use for your financial well-being

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Navigating Volatile Markets

We have just experienced the first official "correction" in the stock market in many years, as the decline exceeded (briefly) the defining 10% threshold to qualify as more than just a "dip". Since that low was reached on August 15th, stocks have regained about 1/3 of the losses, and the S&P500 as of last night was roughly 6% below all-time highs.

Problems in the credit markets continue, particularly in the mortgage market, where lending has come to an almost complete halt in many types of loans. Sub-prime lending is all but dead, and even highly qualified borrowers are feeling the squeeze. For example, the 30-yr fixed rate jumbo loan I received in late May when we bought our new house carries a 6.25% rate: that same loan today would carry a rate of 8.75%!

Now, the markets are in a tug-of-war between the notion that this correction will be short-lived and the fear that the problems in the credit markets will cause a recession. Data over the next 4-6 weeks should give a much clearer picture of the impact of the mortgage mess/real estate downturn/credit crisis on the economy, particularly on the consumer, which is nearly 2/3 of the US economy. If consumers shrug off the issues and continue to consume, this may remain a temporary, industry-specific problem. If consumers are shaken by declining home values and the corresponding loss of available credit through home equity loans, etc, this could be a more serious issue.

I've discussed many times my concerns about the sustainability of a negative savings rate in the US, continued deficit spending by the government, and the general mentality that spending more than you make is just fine. For more than 30 years (1960-1990) the average American saved between 5-10% of their income every year. For the past two years, that savings rate has been negative, meaning people are spending more than they make. The availability of cheap and easy credit has contributed to this overspending, and the idea of "how much can I afford" has been replaced with "how much will they let me buy". As we're learning from all of the sob stories in the news about homeowners who are facing foreclosure, there's a big difference between being able to buy something and being able to afford something. The dramatically tighter lending standards in the credit markets will effect everything from home loans to car loans, so maybe this will be the medicine many consumers need to reign in overspending, which would be a long-term positive. However, as mentioned above, even a moderate decline in consumer spending can have a large negative impact on the US economy.

All of this comes against a backdrop of a relatively inexpensive stock market (based on historical valuations) and a strong economy. Thus, this decline has presented an interesting buying opportunity. For those of you looking to make additional investments in stocks, the question from here is will the market decline more, presenting an even better opportunity in coming weeks and months. Unfortunately, the odds of picking an exact bottom in the markets are about as good as picking the winning lottery numbers. There are two ways I think you can approach this opportunity:

1. Average your way in. You can begin to buy now, with the idea of investing available money in stages over the next few months. This gives you the possibility of buying in near lows (when uncertainty is typically at its greatest), while remaining positioned to add more money should markets decline further.
2. Wait until the dust clears. This is a more conservative way to approach investing, and almost guarantees you won't be buying at market lows, but works better for those concerned about buying too soon in a decline. My guess is the picture will be clearer in the next 4-6 weeks about just how badly the overall economy will be impacted by recent developments, so one can wait on the sidelines for that time and invest with more clarity once there is concrete information to work with.

Either of these strategies can work, it's really dependent on your own risk tolerance and timeframe, so talk to me about what might be best for you.

A final thought on this decline and subsequent (partial) rebound: this is the most significant decline we've seen in a few years. If you found yourself worried about the losses, or you considered pulling money out of the stock market, use this rally to reduce risk by selling stocks. Most investors overestimate their tolerance for losses. I believe in the strategies I've recommended to each of you based on your goals and circumstances. However, I also know that emotions can be the undoing of the best-laid plans. If this recent "stress-test" on your portfolio was more than you felt comfortable with, adjust your portfolio now. If the heat gets turned up higher (i.e. markets decline even further) you don't want to address this issue in the face of even greater losses.

Making Changes to Your Health and Life Insurance

By Harry Hartman, Hartman Insurance Services

Health Coverage and Health Benefits are one of the top issues on the minds of people here in California and throughout the United States.

We may not see any major changes or proposals from the Congress or our State Legislature for some time. What are some of the practical things we as individuals and companies need to think about? Do you have the best coverage and plans in place should you have health problems or a disaster in your life? When was the last time you took a good look at your plan and benefits? I recommend looking at issues like lifetime maximum benefit, annual out-of-pocket maximum, annual deductible and the percentage that you may have to pay and when. Please understand what is covered and what is not. Many group and individual plans have been modified and changed over the last few years. We all need to be more proactive with our health and health coverage. There should be no surprises and please make any changes that make sense.

Health Savings Accounts –(HSA) is a popular option to consider lowering your monthly premium costs and taking advantage of current tax savings and deductions.

HSA provides you with triple tax savings-tax deductions when you contribute to your account, tax-free earnings through account investment and tax-free withdrawals for qualified medical expenses. Most Health companies now offer several “high deductible health plans” that are HSA qualified. For 2007, the amount that can be contributed (and deducted) to an HSA is -\$2,850 (self coverage) and \$5,650 (family coverage). Go to www.treas.gov for a great outline of how HSA plans work.

Life Insurance policies have also continued to evolve within the marketplace and our changing demographics. Most top Life companies now offer very competitive rates to consumers. There are many options available to fit within most financial plans at very affordable costs. Companies are also writing policies up to older age groups than they have in the past. If you should own an older policy (10+ years) of any type, I recommend that you review those values and benefits to check if the policy has been changed or modified. Request a current policy value statement. Lower interest rates, company changes and changes in the marketplace may have affected your coverage.

*Harry Hartman is the owner of Hartman Insurance Services,
specializing in insurance planning for individuals, families and businesses.
He can be reached at (510) 814-0572*

Timely Tidbits:

I have participated in multiple meetings with SEI recently to review the safety and diversification of our portfolios, and be assured that our exposure to the sub-prime issues is minimal. Also, SEI uses a very transparent method of pricing securities in portfolios, so any losses are reflected immediately, minimizing the possibility of sharp declines in funds due to sudden re-pricing of securities (as seen in the multiple hedge funds that had problems in recent weeks). I have reviewed each fund held in every portfolio, and have not found any significant/unusual declines in excess of what we'd expect from the overall market decline. I will also be attending a meeting during the third week of September in SF to hear directly from SEI's Chief Investment Strategist and Global Fixed Income Team Leader to further confirm the integrity and security of our investments.

Quote of the month: “Ninety-eight percent of the adults in this country are decent, hard-working, honest Americans. It's the other lousy two percent that get all the publicity. But then--we elected them.” *Lily Tomlin, US actress & comedienne (1939 -)*

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