



KEVIN KENNEDY

Alameda's Wealth Management Specialist



# Did You Know...?

News you can use for your financial well-being

## September 2007

- ✓ **Married Couples Should hold Property in Trust, not Joint Tenancy**
- ✓ **Fed Cuts Rates: Will it save Economy?**
- ✓ **No More Bubbles!!**
- ✓ **Timely Tidbits**

### Fed Cuts Rates: Will it save Economy?

For the first time in four years, the Federal Reserve Bank announced a cut in the important Fed Funds rate target from 5.25% to 4.75% today. While a cut was expected, most analysts expected only a 0.25% cut, not a 0.50% reduction.

Considering the Fed has been focused primarily on containing inflation –oil is now over \$80/barrel– in recent meetings (seemingly leaning more towards raising interest rates, not cutting rates), **this larger-than-expected cut shows just how severe the “credit crunch/sub-prime mortgage meltdown” has become.** Recent readings on the economy show job losses for the first time in years, mortgage default rates doubling from a year ago, and consumer and business sentiment becoming more negative.

What does this mean for investors? Two things, in my opinion. First, the **risk to the economy is real**, and information in coming weeks and months could cause more volatility. Second, and more importantly, **the Fed seems ready to take bold steps to keep things from slowing down.** This greater than expected cut dispels the notion that the Fed was going to stand by and let the housing/credit markets work themselves out. Rather, the Fed seems ready to play the role Alan Greenspan's Fed played, bailing out speculators (in 1998, Greenspan bailed out Long Term Capital, the massive hedge fund that got in deep trouble; in this case, Bernanke is bailing out banks and mortgage companies who made ridiculous loans).

A common axiom on Wall Street is **“Don't fight the Fed”**. At this point, while economic risks are real, clearly the Fed is going full bore to hold things together. Given that, investors should sleep better at night.

### Married Couples should hold Property in Trust, not Joint Tenancy

*From Heather Tremain of Tremain and Hoffman, LLP*

Joint tenancy seems to be the default ownership choice for most married property owners in California. Property owned in joint tenancy has a right of survivorship, which means that the property passes to the surviving spouse upon the death of the first spouse without probate court involvement. The benefit of probate avoidance has made joint tenancy very popular.

However, one main problem with joint tenancy is that the property only receives a ½ step up in basis at the first spouse's death. This means that if the surviving spouse sold the property on the date of the death of the first spouse, ½ of the gains from the property may be subject to the long-term capital gains tax, which is currently 24.3%.

A way to avoid this tax problem is for the couple to hold the title as community property with right of survivorship. When property is community, for tax purposes the property receives a full step up in basis to the date of the death of the first spouse. So, if the surviving spouse sold the property on the date of the death of the first spouse, no capital gains tax would be paid. However, the right of survivorship only avoids probate at the first death – and not the second death, which could occur minutes later. For that reason, I often recommend taking title as community property in a revocable trust to avoid both probate and the capital gain tax.

If your property is currently held in joint tenancy, it is not too late to change its title to a trust. Whether community property is appropriate depends on each family's circumstances, and legal advice should be sought. Please feel free to contact Heather Tremain, of Tremain and Hoffman, LLP to discuss your estate planning options. Attorney Tremain can be reached at (510) 835-3090, and looks forward to hearing from you.

# No More Bubbles!!

Now that the Real Estate Bubble is popping (albeit in slow motion), we've now experienced two major asset bubbles in the past decade (remember that little Dot-Com Bubble back in Y2000?). When the first bubble popped, many investors lost half or more of their money. My guess is, taking into account the leverage in real estate investing, losses will be just as great as this Real Estate Bubble pops. How can an educated, informed society, fresh off getting pummeled from letting greed and a complete disregard for logic channel them right off a cliff with the Dot-Coms, jump right into another investing trap?

Behavioral scientists are working to answer that question right now. Believe it or not, we're actually using this phenomenon within the investment strategies in your portfolio through money managers who exploit market moves based on irrational investor behavior!

Here are three warning signs I use as red flags for signs you're in a bubble:

1. There are no doubters. Back in 1999, it was sacrilege to say Cisco stock was overvalued. As recently as last year, it was equally blasphemous to suggest housing prices could decline.
2. There are facilitators. A bubble needs some help to get big: for the stock market, it was unscrupulous Wall Street firms pumping overvalued shares, now it's the sub-prime/predatory lenders enabling less-than-qualified buyers to pile into the real estate market.
3. While it's obviously a bubble, it really isn't, because "this time is different". As the crowd merrily stampedes off the cliff, no one dissents because "it won't be like last time we all stampeded off the same cliff, this time is different".

Please reflect on how you felt and what actions you took during both of these periods. While the experiences may have been painful, blocking them from your memory means you've gained nothing from the lesson. Remember, "Those who forget the past shall be condemned to repeat it."

## Timely Tidbits:

My new assistant, Karen, took over the reins from Jill last week, and is doing wonderfully. Please take the time to introduce yourself when you call, she's eager to get to know all of you!

**Quote of the month:** "A good hockey player plays where the puck is. A great hockey player plays where the puck is going to be." Wayne Gretzky, *Canadian hockey player (1961-)*

**Did You Know...?** is produced by Kevin Kennedy, LLC, a Registered Investment Advisory firm in Alameda, California. Kevin Kennedy, LLC specializes in providing independent life and wealth management for individuals and families. More information, including a Form ADV-II, is available upon request or by visiting our website, [www.KevinKennedyLLC.com](http://www.KevinKennedyLLC.com).

All information presented in this publication is derived from sources believed to be reliable, but accuracy cannot be guaranteed. Investments in stocks, bonds, and mutual funds involve risk, including loss of principal-market value will fluctuate. Prior performance is no guarantee of future performance.