



**KEVIN KENNEDY**

*Alameda's Wealth Management Specialist*



# Did You Know...?

News you can use for your financial well-being

## February, 2008

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### Rough Start to 2008

As I'm sure you're aware, 2008 started on a very negative note for the stock market. January was the worst month in more than five years, with a decline of approximately 6%.

I bring this unpleasant fact up for two reasons. First, many investors have a tendency to extrapolate recent market trends, becoming overly confident in good times and overly pessimistic in bad times. After a month like last month, the temptation is to extrapolate that return and come to the conclusion that your account will be worthless by early 2009. This, of course, is foolish, and it's critical to avoid making emotional decisions based on feelings like "I don't want to lose all of my money!"

Second, as I mentioned in my January newsletter, it is often big "washouts" in the market that form bottoms. I did some research on this, and found that recent major 6%+ monthly declines were often great buying opportunities:

Significant Decline Periods	Market Return 12 Months Later
1987 Crash	+21%
August 1990	+23%
August 1998	+40%

If you have any concerns about recent market action, or simply want to talk strategy, please don't hesitate to call me.

### Retirement Income

Investors who depend on income from their investments tend to worry more during market declines than those who can afford to take a long term view. It's especially difficult if one views their "income" as whatever profits have been earned in a recent period: during down times like the past few months, "income" would be \$0! One can't live on a wildly-fluctuating income, hoping the market goes up every month to survive. Here is how I can help you determine a sustainable, fixed income you can safely draw every month regardless of investment market returns.

First, we determine your timeframe for needing income. Then we look at how aggressive or conservative you want to be with the investments. From those two pieces of info, I can calculate a level of income that under most scenarios will last you for your lifetime regardless of current market conditions.

For example, you're a 65-year-old couple, there's a 40% chance one of you will live to age 90. Thus, we'll plan for needing 30 or even 35 years of income. Let's assume you want a balanced portfolio (60% stocks/40% bonds). Given those criteria, you can draw about 5.1% per year from the account and be 80% sure of never running out of money. This is a sustainable income regardless of current market conditions, so in times like now when returns are negative, you need not worry about running out of cash or cutting your income.

In volatile times, many investors consider just moving to 100% bonds or cash (the old "to heck with the stock market!" approach). Given the above criteria, the income draw would actually drop to 4% if the portfolio was 100% in bonds!

Let's create a custom income plan for you—call me today!

# Success Stories

With so much uncertainty surrounding the economic and investment market outlook, I thought it would be interesting to see what some of the most respected investors in the world are doing right now.

## **Warren Buffett:**

Considered by many to be the smartest stock market investor ever, Buffett has compiled an enviable track record over the past 40 years (his investment company Berkshire Hathaway has returned 361,000% over the past 43 years versus a 6,479% return on the S&P 500 index).

Recent filings show Buffett has made significant investments in some basic industries (Kraft Foods, Glaxo Smithkline Pharmaceuticals). He also has added to investments in two large US banks, Wells Fargo and US Bancorp.

Given his approach of buying good businesses below what he feels is the true value of the franchise, it's interesting and encouraging to see him buying into the uncertainty in recent months. Buffett is holding true to his famous quote: "Buy when everyone else is selling, and sell when everyone else is buying".

## **Bill Gross:**

Bill Gross heads money management powerhouse PIMCO, and is considered by many the guru on the bond market. PIMCO manages over \$746 billion for individuals and institutions.

Gross feels interest rates will remain low for a while, so he likes longer-term bonds versus short-term CDs or Treasuries. He believes the turmoil of recent months has created value in two areas: high-quality mortgage bonds, and tax-free municipal bonds.

Clearly, successful investors always keep their eyes open for opportunity, especially in times of volatility and uncertainty. Over the past six months, we've seen more volatility than at any time in the past five years. Many of the world's top investors are putting cash to work to take advantage of these opportunities. Viewing uncertainty as opportunity is how exceptional investors become exceptional.

## **Timely Tidbits:**

SEI will be mailing 1099s next week (beginning 2/26). We'll have electronic access around that time, and will post a copy to your Lock Box as quickly as possible.

The deadline to make contributions to your IRA or ROTH IRA for 2007 is April 15th. Please make sure your check is here by April 11<sup>th</sup> so there is adequate time for SEI to book the deposit before that deadline.

If you're concerned about the economy or investment markets, note that we continue to post timely market commentaries, news articles, and other research to our website. Visit [www.KeinKennedyLLC.com](http://www.KeinKennedyLLC.com) and click on the "What's New" box in the left column.

**Quote of the month:** "...participants expected economic growth to remain weak in the first half of this year before picking up in the second half, aided in part by a more accommodative stance of monetary policy and by likely fiscal stimulus. Further ahead, participants judged that economic growth would continue to pick up gradually in 2009 and 2010." *From minutes of Federal Reserve Board meeting January 29-30, 2008.*

**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.KeinKennedyLLC.com](http://www.KeinKennedyLLC.com).

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