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Did You Know...?

News you can use for your financial well-being

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The stock market is nearing the lows reached last November. The news on the economy is still disconcerting, and is likely to stay that way at least in the short-run. Forecasts vary widely on when the economy will stabilize and begin to recover: optimists say later this year, pessimists speculate that it may not be until well into 2010 when we see things improve. While I often provide you with the research and information I am looking at to try to weigh the dangers and opportunities in the investment markets, that is not the subject of this note. Prognostications and forecasts alone are not what will help you survive this environment.

I grew up in a single-parent household. My mom raised me and my sister on one income, basically living paycheck-to-paycheck. We made due and enjoyed what we had. But as I grew older, I saw the stress that living on a shoestring caused my mom. I decided that I never wanted to feel that stress, that I would work as hard as necessary to establish some degree of financial stability in my life.

I hope and believe that my mom knew how much I respected and appreciated the phenomenal job she did raising me and my sister, and how the lessons I learned at a young age have made me who I am today. My mom passed away five years ago at age 57.

Everything I have today, I've earned. I have great respect for money: the difficulty in accumulating it, and the dangers in managing it. I'm saving towards my retirement, saving towards my 9 year-old son's college education, and running a tight household budget. In summary, I'm eating my own cooking.

I tell you this because it gives you some insight into who I am and what my belief system is regarding money. When I took you on as a client, I took on the responsibility of doing my best to guide you to the same goal of financial security that I myself seek. Times like these test our beliefs, and even the best-laid plans are not rewarding in the short-run. I share your frustration, disappointment, and concern.

I believe our country will recover from this slowdown. In my mind, it is not a question of "if" but rather "when". With that backdrop of uncertainty as to when the economy and investment markets will improve, here are a few fundamental actions you can take now to secure your finances. I'll break this into "pre-retiree" and "retired" strategies as goals are different in these different stages of life.

Pre-retirees

You're in accumulation mode, building assets for future goals (retirement, paying for a child's education, etc.). You hope to achieve these goals through savings and growth in your investments. You are a buyer of assets (stocks, bonds, real estate). We are in the midst of a very bad down cycle in the economy and investment markets, and you're likely questioning the strategies you've been pursuing. What do you do now?

1. Don't stop buying because things are low in price. The value today is not critical; it's the value in the future that matters. Time is your greatest ally in this. The highest-quality assets in the world (the best homes, the bluest blue-chip stocks) are on sale now, do yourself a favor and take advantage of this.
2. Have a rainy-day fund. Keep six months living expenses in a money market. Never lose sleep over how to pay your mortgage if you lose your job.
3. Get a budget and stick to it. Clearly define needs and wants. Learn to appreciate meeting your needs, savor opportunities to satisfy your wants. Live within your means.

4. Revisit your goals and be clear about what's most important to you. When money is tight, make sure you take care of your needs first: is paying for your child's education more important than a premium cell phone plan?

Retirees

You've saved, built a base of assets, and now worry whether these assets will last for your lifetime. Day-to-day fluctuations have a much bigger meaning for you as you see your limited pool of assets lose value in these down cycles. Taking the "long-term view" that pre-retirees subscribe to has less meaning for you. What do you do now?

1. Get your finances to a point where you're not losing sleep. If you're nervous now, one strategy might be to take the next 12-24 months of living expenses out of the investment markets and put it in a money market fund. This buys you the 1-2 years it might take for the economy to recover without doing long-term damage to your investment strategies that moving 100% to cash might cause.
2. Understand what a sustainable amount of income is that you should expect from your assets, and live within that. While recent up and down cycles have been dramatic, long-term damage to retirement plans often results from overspending. A general rule of thumb is that you can draw 4-5% of the value of your account out each year with low risk of ever running out of money. If you stay within that range, you can weather down cycles like this one. If you spend a lot more than that, even the good cycles might not save you.
3. Remember that your investment horizon is the time between today and when you die. If you're 65, you still have a 30-year time horizon, and you need to invest so your money lasts over that timeframe. Moving to CDs or cash might provide short-term relief, but it likely won't provide the income you need for the next 30 years.

We're all a little different in our means, wants, and how we view money. That's why I only work with 100 of you rather than thousands: your personal goals and circumstances shape the individual strategies that will work best for you, and you and I need to work together to achieve your personal goals.

I've outlined above a few bullet points that will help you through this period, but I encourage all of you to sit down with me and review your personal circumstances to make sure you're positioned to weather whatever the economy and markets have in store for us in the coming months.

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.

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