



**KEVIN KENNEDY**

*Alameda's Wealth Management Specialist*



# Did You Know...?

News you can use for your financial well-being

## May, 2009

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### SEI Staying Active

On the surface, our SEI portfolios appear static: our asset allocation stays relatively constant, and we don't see big changes on our statements. Given the volatile nature of the investment markets over the past year or more, is SEI doing anything to position our money in the most promising opportunities based on the changing landscape??

We actually have two levels of activity within our portfolios to manage our risk and generate returns. The first is on the manager level: within each portfolio, SEI hires multiple managers based on stringent criteria to select securities (stocks and bonds). SEI monitors these institutions closely to see not only that their performance is acceptable, but also that the manager is of the highest quality and integrity. Recently, SEI announced manager changes in a number of their funds: Core Fixed Income, International Fixed Income, International Equity, Enhanced Income, and High Yield Bond. These changes involved either firing underperforming managers, or adding managers with new expertise to enhance the portfolios.

Within the portfolios, we have a second level of activity: the stocks and bonds within the portfolios changes on almost a daily basis. In the average portfolio, we have 30-40 managers selecting stocks or bonds. Each of these managers works to select the most promising securities to own, and they are continuously adjusting holdings based on changes in the markets and the economy. It's not uncommon for 25-50% of the portfolio holdings to change during the year. So as markets change, so are our portfolios.

These changes all happen within the funds we own, so we are not bombarded with information every time a stock or bond is traded. Do know, however that your portfolio is being actively managed to adjust to changing markets. If you'd like more detail on this, feel free to contact me.

### Markets Rebound—Now What?

After a rough 2008, the stock market started 2009 by continuing its decline, falling 26% from the closing levels of 2008 by early March. As of May 18, 2009 the stock market had recovered all of that 2009 loss, and was slightly positive for the year, a stunning and, for many, surprising recovery. This bears repeating: the stock market is up this year.

This recovery happens at a time when unemployment continues to rise, uncertainty is abundant, and many major issues (banks, auto companies, etc) remain unsolved. Shouldn't the market be lower?

Once again, the befuddling nature of the investment world has thrown many investors for a loop. While markets seem to not follow logic, in fact this recovery is very typical in cycles like this.

Markets are forward-looking: they are not concerned as much with what happened last quarter as what might happen next quarter, or two quarters (six months) from now. While the economy has not recovered to prior levels, the belief today is that things are not getting a lot worse, and stabilization is a precursor to recovery. Markets will rise in advance of this recovery, anticipating better news in the future.

Here's a good description of the markets today: in March, we were priced for a Depression—now we're priced for a Recession. Simply going from an Armageddon view to a "crappy economy" view was enough to rally a beaten-up market more than 30%.

At this point, markets will need more supporting evidence (improving economic news) to support a continued rally. Surely there will be bumps in the road to recovery, and markets will likely have pullbacks along the way.

Many of the issues the economy is struggling with right now (too much debt at banks and in households, restructuring failing industries, cleaning up government finances, to name a few) are problems that were created over many years if not decades, so resolving all of these issues in a short time is unreasonable to expect. For this reason, my opinion is that while we are going to avoid a Depression, the recovery in the economy may take longer than it typically would. For the investment markets, this means the pace of the recovery will likely slow once we've erased the panic drop that occurred late last year. Prior to the panic spurred by the Lehman failure in September 2008, the S&P500 was above 1200 (about 30% above today's levels). So this rally may have room to go before this slow down a bit.

The recovery is still very young, so things can change rapidly—I'll continue to share my thinking to keep you up to date with the changing landscape.

# Success Stories

If you're like me, the turmoil of the past two years has been stressful, and it sometimes feels like you're riding a rollercoaster and can't get off. This has been a crazy period of time, truly historic (in a bad way), and very emotional for many people. While this cycle will pass, and we'll probably tell our grandkids stories about the Great Recession of 2008, it sure isn't enjoyable living through it. But we will survive, and life will be "normal" again. In the meantime, here are a couple of things you can do to help yourself through this trying period.

**Take a break.** Turn off CNBC. Quit checking the stock market every day. Step out of the river of bad news, give your mind and body a rest, don't get sucked into every bit of news and the over-analysis that is likely to follow.

**Force yourself to do something fun every day.** I'm managing my son's Little League team this season, and while there have been times where I groaned about running an upcoming practice, it is always a welcome (albeit brief) break from the real world.

**Take advantage of bargain prices to go on a nice vacation.** Not only will you reduce your stress level, you'll likely get a great deal in the process.

**Focus on what you have, not what you had.** Family, community, hobbies, these are things a bad economy can't take away. Even in regards to finances, while you might not be as well-off as you were, with patience and good planning you'll be ok. It's up to you whether the glass is half-full or half-empty.

## Timely Tidbits:

- Recently, you've likely received a bunch of material in the mail from SEI. This is the season for annual reports, proxies, and all sorts of required bits of information. This information is required by law to be distributed to shareholders. However, you can opt to have the information delivered electronically (via e-mail or website). Next time you receive a mailing, check the package for instructions on how to sign up for electronic delivery. If you don't have a computer, you'll have to continue to receive hard copies in the mail.
- Today is a big day in California: voters are casting ballots on a variety of propositions designed to balance our state budget. As I've been telling clients, I think it's inevitable that tax rates go up, and the outcome of today's vote could tell us just how soon tax increases will hit us.

**Quote of the month:** "Nothing is permanent in this wicked world - not even our troubles." **Charlie Chaplin**, *British actor, director, & screenwriter (1889 - 1977)*

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