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Did You Know...?

News you can use for your financial well-being

- ✓ **Markets Rebound—Now What?**
- ✓ **Success Stories: Lessons Learned**
- ✓ **Timely Tidbits**

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Rocky! Rocky! Rocky!

Surprise! As of this writing, the human race still exists, the sun hasn't exploded, and our checking accounts are still functioning! As a result, the investment markets have rallied strongly from the lows of March. Apparently 2012 is now the "official end of the world" date - although I'm not sure if that's supposed to be when the sun explodes or when the Chinese repossess our country...

Anyway, the question right now is: is the stabilization in the economy, and the 50% recovery in the stock market, for real? To answer that, we need look no further than ourselves, as our spending represents over 70% of the US economy. If the consumer isn't spending, the economy has a very hard time growing.

For more than 30 years, the American consumer has been on a binge of unprecedented proportions. Consumer spending rose from a little over 60% of the economy 30 years ago to more than 70% in 2007. To fuel this spending, households stopped saving (the savings rate dropped from around 10% of income to 0%), and borrowed money (household debt relative to income hit record levels in the past few years).

Over this 30 year period, the consumer was Rocky Balboa-esque in their pursuit of immediate gratification: nothing could stop them. The 1987 stock market crash: "Hardly felt it!" Recession of 1990-91: "There was one?" Gulf War I, Gulf War II, Dot-Com bubble bursting, 9/11 terrorist attacks, recession of 2001: "Bring it on!" Sure, there was a little bruising, some lightheadedness, but the consumer answered the bell for the next round. Despite many experts predicting otherwise. Every time.

So it's 2008, Rocky is bruised, bleeding a bit, but he's up off the stool for the next round. Only this time he's facing the giant Russian fighter Drago, in the form of the housing bubble. And when that bubble burst, it was a huge right hand to the jaw. The ten-count started in September of last year, and it's not clear whether Rocky is getting up this time.

For the past year, the US government has been giving the Rocky Balboa American consumer sniffing salts in the form of stimulus programs (Cash for Clunkers, tax rebates, etc). Rocky is stirring, trying to rally, but still very wobbly. If Rocky can't rise yet again, the American economy has some tough times ahead.

In a way, I hope Rocky doesn't get up. There comes a time when this destructive behavior must stop, and maybe that time is now. The short-term pain of slow economic growth would be more than offset by the long-term gain of economic security through less debt, more savings, and a more stable society. But I've been ringside for all of those knockdowns mentioned above, and I'd be 0 for 7 betting against the consumer.

The markets are cautiously optimistic about this recovery (I can almost hear the chants: "Rocky! Rocky! Rocky!"). The upcoming holiday season is when the ten-count ends. Until then, I'd suggest moving slowly with new investments, waiting until the news is clearer and risks are lower.

Success Stories

The past twelve months have offered up many important lessons. Here are six lessons to remember:

1. *We were reminded of just how volatile stocks can be.*
2. *And of the importance of true diversification.*
3. *Many investors discovered that they're less comfortable with risk and volatility in their portfolio than they had believed.*
4. *Investors were also reminded of the need to focus on what they can control – understanding their cash needs and thinking through how much risk they can tolerate to fund those needs.*
5. *In some cases, investors began rethinking retirement plans as a result.*
6. *Finally, we were reminded that in today's world, we need to expect the unexpected.*

Timely Tidbits:

- I spent two days last week in SF with top members of SEI's Investment Management Unit doing an in-depth review of their current thinking and portfolio construction. I came away with strong confidence in their process and oversight of our portfolios. If you'd like to talk in detail about the information, please contact me.
- You received an insert in your September statements regarding a fee increase on wire transfers and overnight deliveries: this does not apply to the ACH electronic transfers we typically use to send money to your bank.
- Our new website is live! The URL is the same, www.KeinKennedyLLC.com, but there are many new features and resources available. Please take a moment to check it out and let us know what you think.
- If you'd like to learn a little more about current economic conditions, check out this great series from The Economist magazine:
http://www.economist.com/specialreports/displaystory.cfm?story_id=14530093

Quote of the month: “Reality is that which, when you stop believing in it, doesn't go away.”

Philip K. Dick, *US science fiction author (1928 - 1982)*

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