



Did You Know...?

News you can use for your financial well-being

First Half Review

- Economy
- Markets
- Financial Strategies

July 2010

Economy

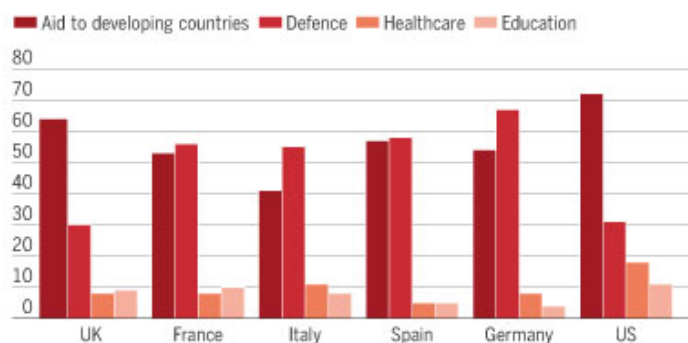
The government-financed recovery that began in mid-2009 is forecast to slow ([Beacon Economics](#)) as the subsidies/rebates/bailouts wind down. While talk of a [double-dip](#) recession is making the rounds, the most likely outcome is a continued slow, uneven recovery lasting well into 2012 ([per Federal Reserve Bank](#)).

Much of the world is in recovery phase right now, but it is a tenuous recovery. [Here's an interesting map of global economic conditions.](#)

Debate continues over whether the skyrocketing debt of governments around the world is sustainable, with Europe taking the "austerity" approach of cutting spending while the US feels the time is wrong to slow spending.

Which of the following policy areas should bear the biggest part of the spending cuts burden?

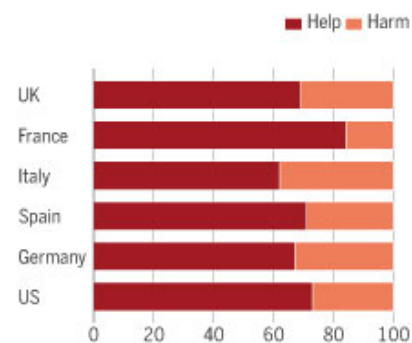
% of respondents (multiple answers allowed)



Source: Harris Poll

Are public spending cuts likely to harm or help the economy?

% of respondents



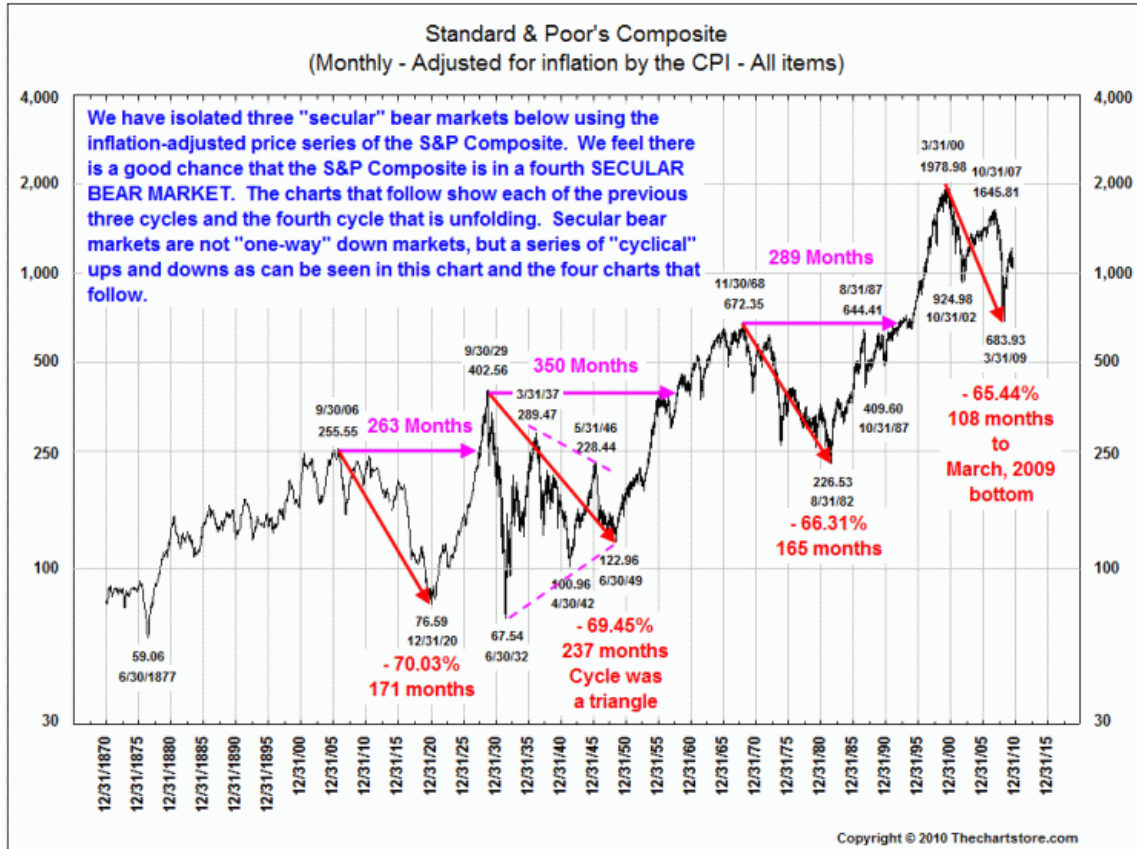
Investment Markets

Given the backdrop of what's likely to be a choppy economic recovery over the next 12-18 months, markets are likely to be volatile. While corporate America is in solid financial shape (good profit margins, historically-high cash balances, good dividend yields), it is still important to buy value. I've targeted over the past six months a 950 level on the S&P500 as a good point to add to stock holdings, and I continue to believe that's the point we want to see to put cash to work. As the economy hits bumps in the second half of 2010, we'll likely see these opportunities arise.

Interest rates are likely to stay low if the economy is stagnant, but will rise when a recovery becomes more widespread. Expectations at the beginning of the year were that the Fed would likely begin raising rates before the end of 2010—now the consensus is that it will be mid-2011 before we see a rise in rates. Refinance those mortgages now; 30-yr fixed rates are below 5%!

Longer-term (over the next 10-15 years—which is very relevant to many of your personal goals), there's good reason to be optimistic. Call me crazy, but here's the logic behind that statement.

Below is an interesting piece of research by Barry Ritholtz (<http://www.ritholtz.com/blog/>) showing long-term cycles in the stock market going back to 1870.



I'm sharing this chart for two reasons: first, it shows how significant the decline we've already experienced is in a historical context (fourth such market in past 100 years). Secondly, and more importantly, it may actually give one reason to be optimistic about the potential returns over the next 10-15 years.

Cycles nowadays seem to be more frequent and quicker than in the past: Some believe that this is due to technology and how quickly information is disseminated versus 50-100 years ago. Note in the chart above, we experienced a 65% decline in 108 months, much faster than comparable declines in the prior three periods. Given this, it might be reasonable to think that the recovery can happen more quickly than average also.

On average, it took the market about 110 months (a little over nine years) to return to new highs. If it takes nine years from the March 2009 lows, that implies an average annual return of 10%/yr. If the recovery is quicker than average to the same degree that the decline was quicker than average, and we're at new highs in six years, the average annual return is 15%/yr.

The common mistake investors make is to let recent experience dictate their approach to investing (i.e. dot-com bubble, housing bubble). In this case, the tough 10-year period from 2000-2009 has many investors discouraged. I would argue that while we may not be entirely out of the woods, the next 10-15 years may present great opportunities for investors.

Financial Strategies

Staying sane—The past few years have been very stressful, and even if you're fortunate enough to have not experienced a foreclosure, layoff, or bankruptcy within your family, it's certainly been traumatic living through this period. Understand that it's ok if you haven't made a lot of headway on your goals over the past few years. There are times to play offense, and times to play defense—preserving what you have and weathering this storm positions you for the recovery that will inevitably come. If you're able to continue to save and accumulate assets (stocks, real estate, etc) through this tough time, the recovery will put you even further ahead of the game. Now is a good time to review your game plan, so call me and we'll make sure you're on track.

Taxes—Changes are coming, and they could be big. Thus, managing taxes will be increasingly important in coming years.

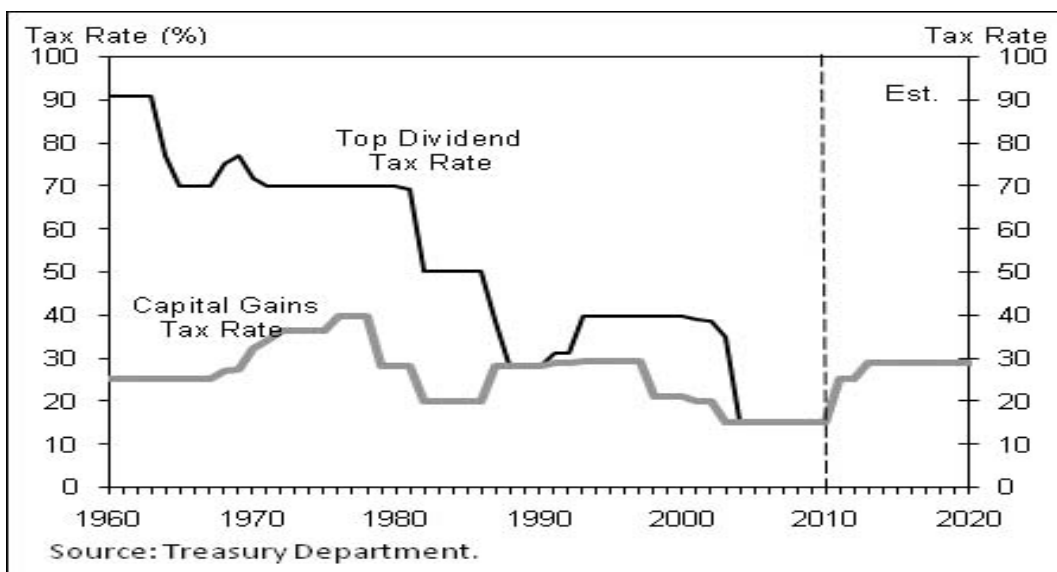
The table below shows what income tax rates will look like when the Bush tax cuts expire at the end of this year, and also what tax rates will look like in 2013, when the Health Care surtax takes effect.

<i>Taxable Income</i>	<i>2010</i>	<i>2011</i>	<i>Top Rate with Surtax 2013¹</i>
\$ 0 – 16,750	10%	15%	15%
\$ 16,750 – 68,000	15%	15%	15%
\$ 68,000 – 137,300	25%	28%	28%
\$ 137,300 – 209,250	28%	31%	34.8%
\$ 209,250 – 373,650	33%	36%	39.8%
Over \$373,650	35%	39.6%	43.4%

¹ The top rate with surtax in 2013 is simply the rate shown for 2011 in addition to the surtax rate of 3.8%.

It's entirely possible that rates head even higher as governments (both state and Federal) grapple with how to pay down the massive deficits they face.

Capital gains and dividend tax rates are also likely to rise, as shown below.



I take this information into account when helping you design your savings and withdrawal plans. In past years, we've benefited from historically low tax rates, but going forward this will be an increasingly valuable and important part of our financial planning.

Estate taxes/wealth transfer—In 2010, the estate tax rate is 0% (assuming Congress doesn't retroactively change things). George Steinbrenner, owner of the Yankees, passed away this week, and it's estimated his estate will save \$500 million because of this. But the estate tax is likely to jump back to 55% come Jan. 1, 2011, with a \$1 million exemption. The Wall Street Journal had a [great article](#) on this last week.

While there's much uncertainty on this issue, given the backdrop of a government \$12 trillion in debt it's hard to imagine the tax on estates will stay low. Transferring wealth during your life will become increasingly important (unless you like the idea of Uncle Sam being your largest beneficiary). There are many ways to accomplish this, and I welcome the opportunity to speak with you and/or your estate attorney on what strategies will work best for you.

Retirement plans/deferred compensation—The turbulent economy has exposed risk in places one never thought risk existed. A big one is deferred comp plans. Understand that money you accumulate in a deferred comp plan is an unsecured asset, meaning if your employer gets in trouble you could lose some or all of your deferred comp. A good example is the recent bankruptcy of the Texas Rangers baseball team: [Alex Rodriguez \(A-Rod\) could lose \\$24.9 million in deferred comp](#). Be aware of this risk.

Exposure to your employer's financial strength is unavoidable as long as you work there, but when you leave an employer you have the ability to sever ties with them by rolling your 401(k) or other retirement savings into an IRA that you control. While your assets in a company plan like a 401(k) are probably not at risk in the way deferred comp is, it's certainly possible to lose track of your accounts or have your former employer lose track of you ([there are almost \\$100 million in unclaimed pension benefits](#)).

Whether it's assessing the risk you have in your deferred comp plan, or gathering old 401(k) assets into an IRA you control, we have a lot of experience in these areas and are here to help.

Quote of the month:

"An economist is an expert who will know tomorrow why the things he predicted yesterday didn't happen today." **Laurence J. Peter**, *US educator & writer (1919 - 1988)*

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