



KEVIN KENNEDY

Alameda's Wealth Management Specialist



Did You Know...?

News you can use for your financial well-being

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- ✓ **Markets Rebound—Now What?**
- ✓ **The Opportunity in ROTH IRA Conversions**
- ✓ **Success Stories**
- ✓ **Timely Tidbits**

Should You Convert Your IRA To A ROTH?

Beginning in 2010, income limitations for ROTH IRA conversions will no longer exist. Thus, everyone will now be eligible to convert their existing IRAs to a ROTH. This tax law change has created quite a buzz, and I've already spoken to many of you about this possibility. Here are a few criteria I look for to see if making this conversion would benefit you:

- you have a long time horizon before you plan to use the money in your IRA
- you have good reason to believe your income tax rate will be higher in the future
- you have cash available to pay the taxes that would result from the conversion

Here are a couple of situations where converting your IRA to a ROTH might be a great opportunity:

- you expect to be unemployed or underemployed for most of 2010
- you don't need the money in your IRA to support yourself, and would like to pass that money to heirs

Whether or not to convert to a ROTH is very much dependent on your financial situation. This is yet another decision where generic advice provided by t.v. commentators or financial columnists may cause more harm than good. If some of the conditions I outlined above apply to you, please contact me and we can look at specifics to see if you'd benefit from this action.

Big Returns in 2009- What's in Store for 2010?

Last year went from goat to hero, as the markets reversed a sharp first-quarter decline and embarked on a huge rally that made 2009 one of the most profitable years for stock market investors in recent memory. For the year, the S&P500 index rose more than 26%. (See Success Stories below for more on the takeaways from 2009).

While we all welcomed this recovery, there is still reason to be wary going forward. Here are a few factors I'm watching to determine the true strength of the economic recovery:

- Will the economy continue to recover as the government stimulus programs end?
- Will companies feel confident enough in the recovery to begin hiring new employees?
- Will risk rear its head again in the form of more mortgage defaults, corporate defaults, or even government defaults (Greece, Spain, etc.)?
- Will the US Government be willing to slow down or withdraw the benefits it instituted to cope with the meltdown last year, and if not, will foreign investors finally back away from subsidizing US Government spending?

While none of us know the answers to all of these questions, my perception is that the investment markets were (until recent days) figuring on a positive outcome on all of these fronts.

In the past week or two, the stock market has begun to have concerns about some of the above issues, and has pulled back about 6% from recent highs.

While I wouldn't expect us to approach the lows of last year, set in the midst of panic and extreme pessimism, it does seem plausible (and healthy) that the markets could pull back another 10%, bringing the S&P500 to the 950-1000 level.

Given this backdrop, I'd recommend moving slowly on making new investments, using sell offs as opportunities to dollar cost average into a portfolio. If we are currently in a much over-due correction phase, you'll want to be ready to buy should we see the markets near those levels I mentioned. I know many of you are looking for just such an opportunity, so I'll stay in touch on this subject in the coming month.

Success Stories

A little less than a year ago, when the stock market had begun 2009 by plunging more than 20%, desperation and fear was in the air. Research shows that record numbers of investors panicked and sold stocks and stock funds during the first quarter of 2009. My advice was to stay the course, ensure you have resources to make it through the next 12-18 months, and in cases where you have a longer-term horizon, try to take advantage of the decline. I'm sure many of you thought I was either naive or crazy, as prognosticators everywhere were sure the world was near its end.

From March 9th to the end of the year, the stock market rallied more than 60%.

For the full year, SEI's 100% equity portfolios had a return in excess of 30%, besting the 26% return of the S&P500 Index. Even moderate portfolios with a balance of stocks and bonds had returns near 25% for the year.

A takeaway from this experience: while you may have felt a need to "do something" in early 2009 when the market was declining, understand that when most investors acted on that emotion, it cost them money (they sold into the lows). Also, it's clear that SEI and the managers in your funds were "doing something": they were positioning the portfolio for the rebound, and the results speak for themselves.

I hope that my guidance and reassurance helped you through that period. Based on how few clients I had sell stock holdings in the first quarter of 2009, I think we were successful in this effort. If so, our participation in the huge rally that ensued makes me confident that I've earned what you pay me.

Timely Tidbits:

- In 2010, people subject to taking Required Minimum Distributions from retirement accounts will have to take those distributions (unlike 2009, when the government gave you the option of not taking the distribution). If you are subject to this RMD rule (over 70 ½ or have an inherited IRA subject to RMDs), we'll be sending you a letter in coming days showing how much you'll need to take prior to year-end.

- TAX INFO TIMELINE:

1099s: As in past years, SEI will be sending out 1099s at the end of February. The additional month beyond the January 31 timeline allows SEI to avoid sending repeated revisions as final information comes in after the 1/31 date.

1099-Rs: 1099's for retirement account distributions are being mailed Monday 2/1/10.

Call me or have your CPA call me if you have any questions. If you'd like us to forward your tax info to your CPA, please let my assistant Karen know and we'll do that as soon as the info is available.

Quote of the month: "If the people who make the decisions are the people who will also bear the consequences of those decisions, perhaps better decisions will result."

John Abrams, *The Company We Keep: Reinventing Small Business for People, Community and Place*

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