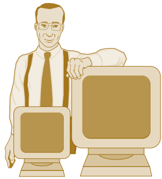
Kensington Times

Vol. 2 Issue 4 2000 Fall Edition



From The President's Desk

Ralph H. Phillips

Happy Holidays! So many wonderful things have happened since we last spoke. As many of you may know, Stephanie and I "finally" got married on October 14th. The ceremony and reception were beautiful.

We moved our offices to Lower Burrell the last week of August. If you haven't had an opportunity to see our new "digs," we are now located at: ***2866 Leechburg Road*** directly across Nevada Avenue from Stewart Elementary School. Huge thanks to our friends and new neighbors at Kaminski & Kaminski CPA's for all their support.

A version of our web site is **FINALLY** complete. You can view it and send us your comments by calling 724.334.1950 or emailing us—k-admin@kensingtonfinancial.com. You can find our nearly complete site by logging on to www.kensingtonfinancial.com/real.

A great addition to our family; if you haven't already met her, is **Janet Tutolo**, our new Administrative Assistant.

This year's Presidential election has certainly been the most interesting and controversial in anyone's memory; and has most definitely contributed to the stock markets overall volatility in the final quarter of 2000. Please remember that a long term outlook may be the most important factor in any valid investment plan.

Until next time, thank you and may God Bless you and your families this Holiday season!

We Are Not Saving Enough for Retirement

Washington *(The Associates Press)*

An analysis based on Federal Reserve data found that 56 percent of households are lagging in saving for retirement. Families with high incomes tend to have adequate savings, only 23 percent of households with annual income between $10,000 and $25,000 had a sufficient safety net, the analysis released by Consumer Federation of America showed.

An analysis by a professor at Ohio State University found that job-related retirement plans are the easiest way to build your savings, a pension plan or the popular 401(k) investment plans are just to name a few.

Matching contributions made by employers in some retirement investment plans provide a great incentive for workers to save.

A related opinion survey of 1,006 adults around the U.S. found that 40 percent of respondents believe their retirement savings would provide a lower than current but adequate

(Continued on page 5)

Teens and Credit Cards

Gannet News Service

More parents, these days, are sending their teenagers, as young as 13, out, not with cash, but with credit cards. Many card issuers are making it easy by offering kids credit cards and prepaid debit cards. Some companies said the cards are intended to teach teens the basics of managing money while they are still being supervised by their parents. Once some teenagers get to college, it may be too late.

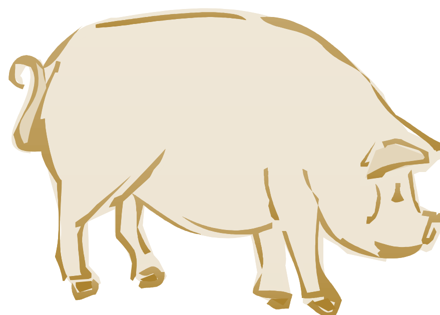
A 1999 survey by ASEC found that 55 percent of all college students and 7 percent of high school students have a major credit card. And almost 1/3 do not pay their bills in full each month.

Parents need to start teaching by example. If they carry a big credit card balance, their kids will know it. Experts don't agree about when and how to introduce

(Continued on page 2)

Web Sites for Piggy Bankers

Managing money can be difficult for an adult. For a child, it can be a complete mystery. Spending money is simple, but saving can turn into a difficult task. Many Web sites teach basic money skills, provide age-appropriate job ideas and supply information about investing or even running a small business. Here are some web sites to check out:



Fleet Kids
fleetkids.com
Kids' Money
kidsmoney.org
Money Cents
kidsmoneycents.com
Investing for Kids
library.thinkquest.org/3096
Strong Kids
strongkids.com
The Young Investors Web Site
younginvestor.com

• Copyright 2000 © Kensington Financial Services, Inc. • Lower Burrell, Pennsylvania •

How (Not) to Handle Today's Stock Market

By Jean Sherman Chatzky

It has been quite some time since Wall Street has seen a roller-coaster ride like the one it's been having this year. Even the stock jocks on CNBC, whom one would think have seen everything, have been incredulous. Yet every time a camera turns to capture an individual investor's perspective, it seems, we hear: *I'm not panicking. I'm not getting out. I'm in it for the long term.* You have to remember this follows a long period when even the most reluctant investors decided they would no longer sit on the sidelines.

The current market, with its swings in every direction, is doing strange things to the minds of investors-and even stranger things to their portfolios. Particularly because the rally has been driven by such a slim percentage of stocks and so overwhelmingly by technology, many investors' holdings are wildly out of balance.

It's not unusual for one great stock or one sector of the economy to make up the lion's share of a portfolio. The question is, what to do about it? If you have…

***Too much of a single stock*: Conventional wisdom says you shouldn't have more than 10-20% of your portfolio in one stock. But that doesn't mean you should automatically scale back if you do. Instead, let the company and your age guide you. If 50% of your portfolio is in an industry leader, in a growing market (rather than a third-tier Internet company that may be on shaky ground), and you still have several decades to make up any losses, you can let it ride.**

***Too much of your own company's stock:* You have not one, but two, stakes in this company (the first being your job), so be a bit more conservative here. You don't have to adhere strictly to the 10% rule-the fact that you probably got a good deal on your shares gives you a bit more wiggle room-but watch the company's progress with a shareholder's eye. If you know you're over weighted, sell gradually.**

***Too much in one sector of the economy:* Let the indexes guide you. The S&P 500 is a reasonable guide for most individual portfolios; it has 32% in technology. If you have about that amount, you can feel fairly comfortable. Look at where you are in your life, if you're feeling more aggressive, you may want more tech. If you're wary, having less is a reasonable way to allocate, too.**

3 Good Reasons to Sell a Stock

- **The stock didn't live up to your expectations. Say you bought a stock because you were intrigued by the company's new products. If those products turned out to be another New Coke—that is, if consumers either didn't care about them or rejected them—it's time to go.**
- **The company has made a strange acquisition. If you bought into a company for one reason, then it acquired another company that is clearly taking it in a different direction, it may be time to get out.**
- **The stock has lost consistency. If a stock that always hit earnings projections and was a consistent grower suddenly stops behaving that way, consider hitting the road.**

(From "Teens and Credit Cards" page 1)

children to credit cards. Teens younger than 18 can only get a credit card if their parents co-sign for it. Durant Abernethy at the National Foundation for Credit counseling recommends that children receive a credit card with a low credit limit and a checking account when they are 16. "They can target certain things they want to buy, charge it and pay it off. If they don't pay it off or pay a day late and get hit with a $29 late fee, then it's a real education."

Housing Stock

By Donald Jay Korn

Thanks to some innovative folks on Wall Street, investors really can "have it all" these days. They can buy their dream house while holding on to their entire investment portfolio.

A conventional mortgage might call for a home-buyer to make a 20% down payment. With brokers' no-down-payment mortgages, an affiliated lender advances the full purchase price of the house. Instead of a $400,000 mortgage on a $500,000 home, for example, the owner has a $500,000 mortgage.

In return for providing such a large mortgage, the lenders get protection in the form of collateral. There are differences among the various programs, but generally the borrower has to pledge 20% to 40% of the home's value as security for the loan. Thus, in the case of a $500,000 mortgage, $100,000 to $200,000 worth of assets in the investor's brokerage account would back up the borrower's obligation.

Adherents insist that such securities-backed mortgages have many advantages. They allow an investor's portfolio to stay in place, for a long-term wealth accumulation, and there is no need for them to liquidate a substantial amount of securities and perhaps pay capital gains tax.

On the other hand, clients who enter into such arrangements are more heavily leveraged than they would be after making a down payment. Leverage is a wonderful tool when assets are growing, but it cuts both ways, imposing stiffer costs on borrowers who suffer a financial reverse.

Weakness in stocks—or in the specific stocks used to secure a mortgage —may have painful results. True, the borrower's house will not be at risk as long as timely payments are made on these nothing-down mortgages. However, a decline in the value of the assets securing the loan may lead to a call for more cash or securities as collateral. Depending upon the specific agreement, the lender might be able to freeze undersized accounts and move assets into safer investments with less upside potential, or even sell assets securing the loan to raise cash.

Nevertheless, it may make sense for some investors to assume the risks of additional leverage. "I usually tell clients to take the largest possible mortgage when buying a home," says Martin Nissenbaum, national director of personal income tax planning for Ernst & Young. "The money that does not go into a down payment can be invested and people may earn more investing than the cost of a mortgage, at today's rates." For these programs to pay off, the collateral should consist mainly of stocks and stock funds, which are likely to outperform mortgage rates *(Continued on Page 4)*

Planning is Critical to All Ages Today

By John C. Behrens

Financial planners economists, and senior government officials from Alan Greenspan to President Clinton are warning that planning a financial future for yourself is the only way to comfortably survive the years ahead.

It's no longer just a preoccupation of the wealthy, the tidy, the efficient, and the elderly. It affects virtually every household. If it doesn't now, you can be sure that it will.

As government and private employers reduce their benefits to employees and citizens, some workers and their families are assuming responsibilities they haven't had before—namely, the task of accumulating and managing their lifetimes.

Some say that it's about time, even that much more should be done to get the government out of our checkbooks and lives. Others, of course, would like to return to the good old days of staunch employer and governmental parenthood, when the paycheck led to the retirement check and others made our decisions for us.

Private companies, struggling to attract quality people, today can't afford the luxuries enjoyed in a bygone era and simultaneously keep stockholders content. Consequently, retirement plans have become matching and shared ventures at best—and nonexistent at worst.

And with younger employees eyeing early retirement from stressful occupations, it's no wonder there's concern from the corporate boardroom to the governor's office about where we're headed.

A number of new books predict that a different economic landscape is ahead of us, compared to the bullish decade of the 1990's. They outline drastic changes, yet several contend that a return to the basics is pivotal to maintaining personal financial equilibrium.

One thing's for sure. This is no time to let the popular *Who Wants to be a Millionaire?* Television program influence your thinking. We're sitting on the launch pad of something more than just a trendy new economy, some speculate.

It's never too late to start saving. While you probably have some savings plan in place already, there's a good chance it's not enough. On average, a man in his thirties should be setting aside a little more than 10 percent of his salary. One who women, with their life expectancies, may need to be even thriftier.

The continued downsizing of major corporations and the early-summer evaporation of IPOs and popular dot-com companies concern those who want to perpetuate a healthy economy.

Shareholder value thinking, which put higher stock prices for investors before every objective, has been most destructive in the harm it has done to the loyalty of all the other constituencies corporations need to thrive in the long term. Employees are no longer loyal; suppliers are moving to wrest control of purchase decisions from their major customers'; customers are losing their loyalty to brands and shopping for the best deal; even governments and communities are fighting to level the playing field to avoid future exploitation from companies looking to gratify their shareholders at the expense of everyone else. Meanwhile, college graduates are told to expect to move seven to ten times or more in search of stable employment.

Companies create value by making the most of their assets, the basic building blocks of value or what we think of as their economic DNA. Companies can crack the value code by understanding what assets they need to succeed. In the new economy, the most successful businesses are designing business models made up of new asset combinations.

Don't overlook the fact that the same message applies these days to the individual who spends the necessary time to create a business plan for himself. Companies have to make use of what's available to them, and individuals have to use their own personal inventory to come up with a model for success, whether it's for owning stocks and bonds or plotting income growth.

As the technology of the late 20th century impacts the opening years of the 21st century, all of us have to sit down and assess our future. We have to have plans. We can't let others decide our fate for us.

That's why you should make a note to start your planning today and finish it no later than tomorrow.

Kensington Financial Services does not provide tax or legal advice. Please contact your Certified Public Accountant or your Attorney for more information regarding your particular situation. Please call your Representative at Kensington Financial with any Insurance or Investment questions.

Basic Rules of Investing

- Diversify your investments.
- Understand the relationship between risk and reward.
- Maintain realistic expectations about investment performance.
- Keep short-term market movements in perspective.

Invest wisely. Your future depends on it.

Northern Westmoreland Career and Technology Center

"*Investing 101*"

Come and learn the basics of investing! Starting February 5th, a class will be held every Tuesday and Thursday evening, for 6 weeks, from 6:30-8:30. The class will be taught by **Ralph H.Phillips, President of Kensington Financial**. For more information please call **Jill Awes**, *Business, Industry Liaison of NWCTC* at:
(724) 335-9389
or call us at: (724) 334-1950.

(Continued from "Housing Stock", page 2)

over the long-term.

Brokerage firms are hardly the only ones willing to provide no-down-payment mortgages. Many mortgage lenders offer 100% loans, even 103% loans. "Those typically are high-rate loans, says Nissenbaum. "Borrowers might pay 9.5% instead of 8%. They also have to pay private mortgage insurance (PMI), which can be expensive. From what I've seen, no-down-payment programs at brokerage firms offer competitive interest rates and don't require PMI payments." He also notes that 103% mortgage loans aren't fully deductible because deductibility is limited to interest on debt up to a home's fair market value.

Nothing-down loans, whether or not collateralized by securities, may offer tax advantages to clients. A 100% mortgage, of course, yields larger write-offs than an 80% mortgage. The interest on money borrowed to buy a home is usually deductible, so borrowing at, say, 8% may wind up costing a homeowner only 5%, after tax. In a letter ruling, the IRS has said that interest on loans secured by a residence will be considered home mortgage debt, regardless of whether the loans are collateralized by securities. Therefore, the interest on loans in these programs probably will be deductible. Some firms allow borrowers to purchase investment property using 100% mortgages, but such loans fall under different tax rules. Homebuyers who choose to make a large down payment may run into an "equity trap". If you need the cash later, and pull it out in the form of a home equity loan, the tax deduction will be limited to the interest on $100,000 worth of home equity debt.

Investors who put up securities to collateralize home mortgages retain flexibility. They can trade those securities, as long as they retain enough value to back the loans. Federal law prohibits tax-deferred retirement accounts from being used as collateral, so other assets must be pledged in these programs.

Kensington Financial Services does not provide tax or legal advice. Please contact your CPA or Attorney for more information regarding your particular situation.

(Continued from page 1, "Americans & Retirement")

standard of living, while 19 percent said they would provide a less than adequate standard of living. On average, respondents said that they expected 29 percent of their retirement income to be provided by Social Security.

Search For These Words in the Puzzle Below

Sun America	Bonds	Retirement	Assets	Shares
Securities	Mutual	Trust	Cash	Money
Investment	IRA	Custodial	Joint	DVP
Stocks	Investor	Education	Kensington	Financial
Bank	Client	Estate	Accounts	Dividends

R	A	N	L	A	I	C	N	A	N	I	F	U	S	R	I	T	E	S
O	C	A	S	H	T	N	I	O	S	S	N	T	H	R	S	S	D	H
T	C	D	B	A	N	K	T	D	Z	E	E	Y	I	U	T	V	U	A
S	O	M	O	G	R	G	U	B	N	S	I	I	R	A	P	T	C	R
E	U	R	N	T	N	H	S	T	S	U	R	T	T	T	M	N	A	E
V	N	R	D	I	E	L	L	A	O	F	P	E	I	G	J	E	T	S
N	T	Y	S	U	N	A	M	E	R	I	C	A	R	R	F	I	I	K
I	S	N	E	T	H	U	J	O	I	N	T	X	A	B	U	L	O	C
H	E	K	Y	N	T	T	R	L	A	I	D	O	T	S	U	C	N	O
K	B	D	F	J	O	U	T	N	E	M	E	R	I	T	E	R	E	T
I	N	V	E	S	T	M	E	N	T	D	I	V	I	D	E	N	D	S

KENSINGTON FINANCIAL IS...

Ralph H. Phillips, President
Janet Tutolo, Administrative Assistant

Tell Us What You Think

Phone us at: (724) 334-1950
Fax us at: (724) 334-1954
See us on the Internet at: kensingtonfinancial.com/real
OR Email us at: k-admin@kensingtonfinancial.com

Wall Street Wisdom

"Personal relationships are the fertile soil from which all advancement, all success, all achievement in real life grows"

-Ben Stein

Kensington Financial Services, Inc., unless otherwise noted, is solely responsible for the content of this publication. This quarterly Newsletter is to be used for informational and educational purposes only. Neither the information nor any opinion expressed constitutes an offer to buy or sell any security or option or futures contract. The information herein has been obtained from sources which we believe to be reliable, but we do not guarantee its accuracy or completeness. Kensington Financial Services, Inc. makes no market in any security. This material should not be considered tax advice or legal advice. You should consult your Tax and Legal Counsel for advice and information concerning your particular situation. You should consult your Kensington Financial Account Representative before making any investment or insurance decisions. All inquires about this Newsletter should be addressed to:
The Editor, c/o The Kensington Times, 2866 Leechburg Road, Suite #2, Lower Burrell, PA 15068.
KENSINGTON FINANCIAL SERVICES, INC. • 2866 Leechburg Road, Suite #2 • Lower Burrell, Pennsylvania 15068 • (724) 334-1950
All Securities Transactions Offered Through Registered Representatives of SunAmerica Securities, Inc. • Member NASD / SIPC.
COPYRIGHT © KENSINGTON FINANCIAL SERVICES, INC. • LOWER BURRELL • PENNSYLVANIA