BELL INVESTMENT ADVISORS
MOMENTUM FOR LIFE®

The Opening Bell

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Should You Invest Like It's 1999?

by Matt King, CFA, Chief Investment Officer, Managing Director

The S&P 500 Index just posted its best calendar year since 1997. Upon mention of that fact over the last few weeks, most of the investors I talk to become quite concerned, which is not surprising. After all, anyone who has been an equity investor for 15-plus years remembers the investment environment in the late 1990s. While the stock market produced stellar gains for five consecutive years (20%+ annual gains from 1995 to 1999), the overvaluation that resulted in the technology and telecom sectors led the S&P 500 into a near three-year bear market that resulted in a 49% decline in the index.

While you might instinctively shudder at the thought of equity returns similar to those in the late 1990s, it is important to look beyond performance to understand how today's market environment compares to that time.

Valuation

By the late 1990s, stock valuations had reached unprecedented levels, even surpassing the levels that preceded the Stock Market Crash of 1929 that triggered the Great Depression. This was largely due to investors' infatuation with technology and telecom stocks, which drove stock valuations in those two sectors well beyond rational levels. Because of the significant appreciation of the stocks in these two sectors and the market-cap weighting methodology of the S&P 500 Index, their combined weights in the index rose to nearly 42% by the end of the 1990s. (Comparatively, their combined weights are half of that now.) The end result was that extremely overvalued conditions in only two of the stock market's ten sectors resulted in the stock market itself becoming historically overvalued, which ultimately led to the bear market when the prices of tech and telecom stocks crashed.

Today, equity valuations within the U.S. are not yet at alarming levels—though they are not at attractive levels either. Valuation is an extremely important determinant of long-term returns, but it fails as a reliable short-term indicator as overvalued conditions can last for years.

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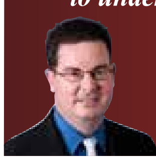
> 
>
> – Matt King, CFA

The S&P 500 is at a similar valuation level now as it was in 1996. Had you exited stocks at that time due to valuation concerns, you would have missed another three-plus years of significant returns. This is why we feel comfortable maintaining U.S. stock exposure despite elevated valuations levels *as long as the momentum remains strong*.

MORE COVERAGE INSIDE

Aside from small slivers of the market like social media stocks, we do not see any areas of extreme overvaluation within the U.S. market that could potentially drag it down. Additionally, stocks outside the United States remain relatively cheap. As a result, we continue to maintain significant exposure to European and Japanese equities, which offer a sanctuary for value-conscious investors should U.S. stock valuations climb even higher.

Monetary Policy

While bear markets typically begin with overvalued conditions, the fact that valuation is a weak short-term indicator of future market performance leads us to incorporate other variables in trying to predict the likelihood of an impending bear market. One of those other variables is monetary policy as bear markets tend to occur as or after the Federal Reserve is removing liquidity from the economy via tighter monetary policy. This was the case in the late 1990s as the Fed began tightening monetary policy in

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Account Performance Report Through December 31, 2013

Since 1999 we have calculated the average return of our clients' accounts. These performance figures are derived from actual accounts managed by Bell Investment Advisors. Here is a quick look at the latest results:

	YTD	January 1999 to December 2013	
Index	**Total Return**	**Total Return**	**Annualized Return**
Bell Average Account (1)	23.9%	197.4%	7.5%
S&P 500 Index (2)	32.4%	98.5%	4.7%
MSCI EAFE Index (2)	23.3%	106.7%	5.0%

This table compares our average account performance with the domestic stocks of the S&P 500 Index and the foreign stocks of the MSCI EAFE Index over the last 15 years.

Despite two significant bear markets during this time period, our Active Portfolio Enhancement® methodology has produced an annualized return of 7.5% since 1999. Our advantage lies in our proactive, momentum-based approach versus the passive strategy of tracking a particular market index.

When you compare performance results, it is important to make note of what is, and is not, included in the stated returns. Our returns are reported net of all management fees, mutual fund expenses, and trading costs. Here, the bottom line is the bottom line.

Notes

(1) Includes the effects of Bell's management fee, mutual fund expenses, Schwab transaction fees, short-term redemption fees, and cash holdings.

(2) Does not include the effects of the items described in Note 1.

Disclosures

Past performance is no guarantee of future results. Future returns may differ significantly due to materially different economic and market conditions. Returns assume the reinvestment of dividends and capital gain distributions. These investments involve risk and the possibility of loss—including principal. Mention of a security in this newsletter should not be taken as advice to buy or sell that security.

In regard to the Bell Average Account, the term "average" is defined as a simple average—not a weighted average. Only fee-paying clients who fully employ our Active Portfolio Enhancement strategy are included in the return calculation. Client accounts that hold individual securities or funds not recommended by Bell; employ fixed income, hedging, cash reserve, market timing, socially responsible, or any other strategy not representative of Active Portfolio Enhancement; or maintain cash allocations greater than ten percent of the portfolio for more than thirty days are not included in the calculation. We believe that removing these accounts improves the stated results as Active Portfolio Enhancement has traditionally been our most successful strategy. Additionally, only client accounts that were managed for the full calendar year are included in that year's return calculation. Accounts opened mid-year are not included in that specific year's reported results. We do not believe this policy has any material effect on the stated results.

The S&P 500 Index is an unmanaged, market-cap weighted index of large-cap stocks commonly used to represent the U.S. stock market. More information can be found at www.standardandpoors.com. The MSCI EAFE Index is an unmanaged, unhedged, market-cap weighted index of foreign stocks commonly used to represent developed stock markets outside of the United States. More information can be found at www.mscibarra.com. Neither the Bell Average Account nor these indices can be invested in directly. The composition and volatility of Bell's client accounts vary and may significantly deviate from these indices over time. ■

Should You Invest Like It's 1999?

(continued)

1999 by increasing the federal funds rate from 4.75% to 6.50% over a 12-month period. While overvalued technology and telecom stocks ultimately would have crashed on their own, this removal of liquidity from the market in such a short period of time was certainly one of the catalysts that caused the crash to begin in 2000.

Today, monetary policy remains historically accommodative with the target fed funds rate set in between the range of 0% to 0.25%. While the Fed has announced a tapering of its purchase of longer-term bonds, they have been utterly clear that their target fed funds rate will remain in place until the unemployment rate falls to *at least* 6.5%. Given the rate of recent job growth, that is unlikely to occur in 2014, so you can expect at least another year before the Fed begins to tighten monetary policy.

Mutual Fund Flows

Despite the S&P 500 Index producing its fifth consecutive up year in 2013, this current bull market has progressed without a meaningful segment of the investment public participating. According to the Investment Company Institute, equity mutual funds had positive inflows in 2013 for the first time since 2007, the final year of the last bull market. After losing significantly in the last bear market, many investors simply gave up on stocks and are only starting to come back now. The 1990s were a much different environment as equity fund flows were positive for each year in the decade, ultimately peaking at a record high in 2000, just as the market was beginning to falter.

Conclusion

While 2013's stock market performance resembled that of a year from the late 1990s, there is little else of note comparable between then and now. Therefore, you should temper your expectations for a multiple-year run of 20% returns as well as your fears for a significant decline in stock prices. ■

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The Virtue of Waiting

by Jim Bell, CFP®, President and Founder

Sometimes waiting to take action or to start something new in life can yield valuable rewards. Consider a 65-year-old American who is eligible to collect $12,000 per year from Social Security. If he or she can wait five years until age 70, the annual Social Security benefit increases by 41.7% to $17,000, and that income has guaranteed cost-of-living increases year after year. When your earned income stops or declines due to retirement or semi-retirement, a 41% increase in your guaranteed retirement income can make an enormous difference in your financial security.

For a married couple, this increased benefit will also pass along to the surviving spouse. Social Security benefits generally increase by 8% per year, guaranteed, each year you wait to collect beyond your full retirement age. In this case, waiting itself is an investment, and it is impossible to find an 8% guaranteed annual return on an investment backed by anything as strong as the U.S. Government.

Just because you are eligible for Social Security at age 62, you need not take it then; it is very important to weigh the benefits of waiting. The data on life expectancy continues to increase, so the finish line keeps moving ahead of where it used to be. In response, we need to adjust our own perception of an appropriate retirement age.

Almost everyone I know has a relative living well into their 90's, and some have relatives who are 100 years old or more. Retiring at 62 or even 67 does not make the same sense that it did before the finish line moved well up into the ninth decade. If you like your work and you find it satisfying, continuing to work becomes a virtue, with many personal and professional benefits, as well as a guaranteed 8% annual investment reward for your patience.

Only a very few of our fellow citizens are taking advantage of this reward. 1.4 million men and nearly 1.3 million women began collecting Social Security benefits in 2012. Only 1% of the men and approximately 2% of the women waited to age 70. Sometimes it literally pays to be an outlier.

Another good example of the virtue of waiting is provided by the stock market. When the U.S. market, as measured by the S&P 500 Index, fell from its peak above 1500 in July of 2007 to its nadir below 700 in March of 2009, it was easy to think that it would never recover. Ever since I began my career as a financial advisor in 1982, I have been able to say that the U.S. market always recovers and moves back above the highest point from which it fell. This has come true again. In 2009, it was hard to imagine that the S&P 500 would move from below 700 to above 1800 by the end of 2013. The outliers who waited, who stayed with the market, can rest now in the comfort of their increased financial security.

Is your impatience blinding you to the virtue of waiting? ■

UPCOMING EVENTS

WEBINAR

Making a Good Life Happen—The Webinar

Wednesday, January 22, 2–2:30

LUNCH GATHERING

Making a Good Life Happen—The Lunch

Wednesday, January 29, 12–1:30

LUNCH & LEARN

Are You Missing Strategic Benefits from Social Security?

Wednesday, February 19, 12–1:30

WEBINAR (FOR CLIENTS ONLY)

Investment Committee Update

Wednesday, February 26, 2–2:30

WEBINAR

The Art of 1031 Exchanges for Your Real Estate Investments: Increase Your Wealth While Deferring Taxes

Wednesday, March 19, 2–2:30

WINE & CHEESE GATHERING

The Women's Roundtable: Taking Charge of Your Financial Future

Wednesday, March 26, 5:30–7

REGISTER FOR THE WEBINARS:
bellinvest.com/news-events/events

REGISTER FOR OTHER EVENTS:
510.433.1066 or info@bellinvest.com

We appreciate your topic suggestions!

In Memoriam
The Winter Solstice

by Jim Bell

The Winter Solstice is behind us now. We have been through the longest night and shortest day, and now the daylight is beginning to expand. In our garden, the impatiens are frozen and dead, but the cyclamen are blooming white, whispering, "There is still life; there is still hope."

This season leading up to the Winter Solstice, we suddenly lost a close friend and important professional, Anita Thede, 2013 President of the Berkeley Board of Realtors, and owner of Northbrae Properties. Anita was a good friend for over 20 years and very special to us because she sold us our dream home, uphill from the Claremont Hotel, 12 years ago.

Anita was energetic at work and at play. She loved her long vacations in Italy reconnecting with her roots there, and she was passionately dedicated to her Berkeley community. She was actively involved with the Women's Drop-In Center, The Crisis Nursery, Alta Bates Hospital, St. Mary's College High School, Berkeley Rotary, and The Aurora Theatre, to name a few. She raised three sons, one of whom will continue to keep Northbrae Realty very much alive and well.

At her Funeral Mass, Father George Alengadan captured Anita's sense of humor with the following parable:

A Catholic mother has two young sons, both of whom love pancakes. Every Sunday before Mass, the mother makes her boys pancakes. One Sunday, as the first pancake is turning golden brown, the older boy tugs gently at his mother's apron and asks, "Mommy, may I have the first pancake?" The mother recognizes a teaching moment so she responds, "What would Jesus say?" She answers her own question, "Jesus would say, 'Let my brother have the first pancake'." The older son also recognizes an opportunity and turns to his younger brother, "OK, you be Jesus."

2013 Bell Youth-in-the-Arts Grant Recipient Announced

Congratulations **Gritty City Repertory Youth Theatre!** Find out about GCR at grittycityrep.org and about the Bell grant at bellinvest.com/about/bell-youth-arts-grant.

The Virtue of Courage in Career Change

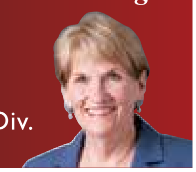
by Bonnie Bell, MA, MDiv., Principal, and Director of Career/Life Coaching

In the 1/5/2014 Sunday New York Times, a former physician, Joel Greenwald, writes about how his career as a physician eventually enhanced his second career as a Certified Financial Planner® . . . an opening sentence that could cause whiplash. I had to read on.

For Dr. Greenwald, becoming a physician in the first place made sense, coming from a family of physicians as he did, including his grandfather, a public health doctor; his grandmother, a cardiologist; and his father, an oncologist. He describes himself as a man satisfied with his career for a number of years, while he was aware that he did not "love it" as did his wife, also a physician. Over time, however, he found the work less and less fulfilling. In other words – my words – he evolved and changed, something people have a hard time predicting or accepting, even though that reality is all around us. People evolve, situations change, the marketplace changes, and none of us is a prophet. We can't predict how the choices we make will affect us.

We seem to have a cultural assumption that we are capable of making perfect career choices when we are 16 or 18 or 25. The Department of Labor Statistics demonstrates otherwise. We know now that people change jobs an average of seven times in a lifetime, which is not necessarily seven careers in a lifetime, but it does mean there will be change, and there will be development. What's so bad about that?

> ***. . . people change jobs an average of seven times in a lifetime. . .***
>
> – Bonnie Bell, MA, MDiv.



I have observed over the 25 years that I have been a (very happy) career/life coach that most people who become less satisfied with their work as time goes on feel as if they have done something wrong. They are full of self-recrimination and shame: *I never should have majored in English (or math or music or whatever); What's wrong with me?; I should have known this wasn't going to work out; I used to be happy doing this work, why not now?*

The fact is, it is our nature as humans to evolve and to be changed by our experiences. We can't bypass that process; if we try to avoid change because it is often challenging and can take a long time, we may pay the price in extreme dissatisfaction and profound disappointment at the end of life. All of our decisions and choices affect who we are, and as mature adults we can play a proactive part in managing that trajectory in order to make it a positive one. Our momentum strategy bears repeating at least at the beginning of a new year when taking positive action is a real possibility once again. The questions underlying our momentum investment strategy also apply to career and life: What's working? What's not working? What's missing? What's next? It's much more doable to manage small pieces of the pie than it is to make a whole new pie!

Dr. Greenwald's transition to Certified Financial Planner® was indeed challenging, but he came to the point in his life when he knew he simply could not face another thirty years in a career that had become tedious. and he mustered the courage to embark on an entirely new path. Then he faced the reality of needing to build a practice of his own, client by client, which he did. Now we get to the part where his first career began to enhance the second . . .

More than ten years into his new career, he retained his first client who was also a physician, and that led him to his unique specialty: Financial Planning for Dentists and Doctors. Now he is living his dream. ■