BELL INVESTMENT ADVISORS
MOMENTUM FOR LIFE®

The Opening Bell

Vol. 24, No. 3
July 2014

Are You a Longshot Investor?

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

I enjoy watching the World Cup—not because I'm a big soccer fan (sorry, football) but because of the grand stage on which it takes place. It is like the Olympics for the sport that everyone in the world (except Americans) loves the most. It feels really important—something you can't miss. Plus watching any sport played at its absolutely highest level is something to behold and appreciate.

As a casual fan that tunes in every four years, I don't know much about soccer aside from the fact that the teams from Brazil and Germany are always among the best. To help me narrow down the games I want to watch, I have to look at the betting odds to understand who the favorite is and who the underdog is and which games project to be the closest and most interesting.

High Risk ≠ High Reward

In the opening-round World Cup match between Cameroon and Brazil, the odds stated that Cameroon was a 25-to-1 longshot to beat Brazil. That means that you would get $25 for every dollar bet if Cameroon pulled off the upset. Those odds translate into a 4% probability, which illustrates that taking a risk and betting on Cameroon to win could pay off handsomely *if* the unexpected happened.

Cameroon was a high-risk pick because Brazil, which always has a top soccer team, was playing at home where it hasn't lost a non-exhibition game since 1975. And being the World Cup tournament, this couldn't be further from an exhibition game; Brazil would undoubtedly be giving it their all. Additionally, Cameroon hasn't won a World Cup match since 2002, and that victory came against Saudi Arabia, which doesn't exactly have the same soccer tradition and success as Brazil.

A 25-to-1 payday was certainly high reward if you were right about Cameroon winning the match, but that was not likely to occur. The more likely result was that Cameroon would lose the game, and anyone who wagered on them to win would lose money. (Brazil won 4-1.)

One common mistake that investors make is assuming high risk equals high reward. It doesn't necessarily. More accurately stated: High risk means a higher chance of greater rewards, but it also means a higher chance of loss.

One common mistake that investors make is assuming high risk equals high reward.
— Matt King, CFA

The Favorite-Longshot Bias

Studies in sports and horse wagering have demonstrated a clear psychological bias from bettors when it comes to picking favorites and longshots. The favorite tends to be undervalued while the longshot tends to be overvalued. In simpler terms, the favorite actually has a higher chance of winning than the odds imply, and the longshot actually has a lower chance of winning than the odds imply. In the context of the Brazil vs. Cameroon game, this means that the probability that Cameroon would win was likely meaningfully less than the 4% probability that the odds implied. Because of the misconception that high risk equals high reward, the negative outcome (the risk of loss) is often overshadowed by the positive outcome (the reward) due to the eye-catching potential payoff.

Another common mistake investors make is falling prey to this favorite-longshot bias in their portfolio design by overweighting high-risk investments. Rather than take a slow-and-steady approach to investing with small, consistent gains over time, investors often seek out longshot investments—ones with a higher potential for a significant gain but also a higher potential for a loss that often goes largely ignored. If your portfolio contains concentrated stock positions, lever-

(continued on page 2)

MORE COVERAGE INSIDE

- Account Performance Report Page 2
- Stress Is Good Page 3
- Who Ya' Gonna Call? Stressbusters!! Page 4

Account Performance Report Through June 30, 2014

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 June 2014	
Index	**Total Return**	**Total Return**	**Annualized Return**
Bell Average Account (1)	3.4%	207.4%	7.5%
S&P 500 Index (2)	7.1%	112.7%	5.0%
MSCI EAFE Index (2)	5.1%	117.4%	5.1%

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. ■

Are You a Longshot Investor?

(continued)

aged ETFs, IPOs, uncovered options, or penny stocks in any consequential amount, you are likely succumbing to the favorite-longshot-bias.

Limit the Longshots in Your Portfolio

For investors who view high-risk investments as high-reward investments, the lure of a potentially large return on a longshot investment is often too appealing to resist. Unfortunately, the probability of that large potential gain is likely being overestimated while the probability of a large potential loss is likely being underestimated.

The best advice for investors in overcoming these commons mistakes is the same piece of advice you would give someone who gambles on soccer games or horse races: don't bet more than you can afford to lose. Therefore, if you must engage in longshot bets in your portfolio, limit their allocation to a point where they can't hurt your long-term returns. This typically means an initial allocation of 5% or less of your portfolio. Even if you ultimately lose everything on your longshot investments, you won't completely derail your portfolio's return. The last thing any investor should want is to make their retirement a longshot. ■

Bell Investment Advisors

- Investment Management
- Financial Planning
- Career/Life Coaching

While each of our offers stands alone, we believe that when people take advantage of all three, they maximize the possibility of building positive momentum for life.

1111 Broadway, 16th Floor
Oakland, CA 94607
510.433.1066 ▪ f 510.433.1067
800.700.0089

Fountaingrove Village
2097 Stagecoach Road, Suite 230
Santa Rosa, CA 95404
800.700.0089

info@bellinvest.com
bellinvest.com
careerlifecoaching.bellinvest.com

Stress Is Good

by Jim Bell, CFP®, President and Founder

Normally, I would not think of stress as something positive, but as I observe human development and strive to understand what determines success, I see that learning to manage and cope with stress is fundamental to human achievement.

When astronauts escape earth's atmosphere and gravitational force, they float through the air without the stress of gravity. In order to stay healthy and ready to return to earth, astronauts work very hard while in orbit creating stress and resistance with special exercise equipment so that their bodies won't completely collapse when reentering earth's gravity.

Children gradually learn from the stress of parental separation to become independent and self-actualized. When confronted about misbehavior, children also learn from the stress of criticism and negative assessment. I would guess that we all know some adults who still have not learned responses to criticism other than defensiveness and hostility. It is refreshing to encounter adults (and children) who can hear and even appreciate constructive criticism.

Even Good News Can Be Stressful

As investors, we encounter stress every day. Even good news can be stressful. For example, the U.S. stock market is at an all-time high and keeps going higher. Is this a case where good news is actually bad news? No one knows when the market will top out and turn down for a double-digit correction. Just because the market is at an all-time high does not mean that it won't keep going higher, especially in the face of low interest rates, low inflation, robust corporate earnings, and a recovering housing market. This is what bull markets do—they keep going higher until they do not.

> ***. . . learning to manage and cope with stress is fundamental to human achievement.***
>
> — Jim Bell, CFP®

Confronting the unknown is stressful, but it is the kind of stress that makes us stronger and more successful as investors. So what if the market turns down 10% to 20% or more. Do you remember how it has recovered over the past five years, from 2008/2009? Some people haven't.

Worry Is Stressful

There is an old saying that "Wall Street Climbs a Wall of Worry." In order to develop successfully, human beings also climb a wall of stress.

Personal and political conflict is stressful. The conflict between Ukraine and Russia has been extremely stressful. If you sold all your stock or mutual funds in response the crisis in Ukraine, too bad for you financially, because the stock market has continued to go up.

The insurgency in Iraq continues to be discouraging and stressful. If you decided to go to cash because of it, too bad for you. The market has continued to go up.

The U.S. government continues to bicker and procrastinate while our roads and bridges become more dangerous to travel every day, yet the market continues to go up.

Stress Makes Us Stronger

Stress is good because it gives us the chance to develop mature muscles that do not fail us every time stress gets in our face.

Stress is very important in the process of Financial Planning and Retirement Planning. Our clients want to be sure that stress will not cause their plan to fail. Stress-testing is one of the most valuable ingredients in a reliable plan.

Based on the client's age, capital at work, and required distribution, we are able to stress test 10,000 possible historic market gains and losses so we can predict probability of success for each and every plan. Clients gain important knowledge from the planning process:

- How much longer should I continue to work as I do now?
- How much more do I need to save and invest?
- How much sustainable spending can I afford annually?
- Can I afford a vacation home and still retire?
- Can I afford to help my children buy a home?

Stress can make us stronger, and those who develop mature muscles from handling a variety of stressors over the years will become wise decision-makers even in the midst of various types of stress. ■

UPCOMING EVENTS

WEBINAR
Performance Momentum vs. Fixed Allocations: What Every Investor Should Know
Wednesday, September 17, 2–2:30 pm

WINE & CHEESE GATHERING, Oakland Office
The Women's Roundtable: Taking Charge of Your Financial Future
Wednesday, September 24, 6–7:30 pm

WEBINAR
Topic: the role of life insurance in estate planning
Wednesday, October 22, 2–2:30 pm

GATHERING, Oakland Office
Save the date.
Wednesday, October 29, time TBD

WEBINAR (FOR CLIENTS ONLY)
Investment Committee Update
Wednesday, November 19, 2–2:30 pm

LUNCH GATHERING, Oakland Office
Making a Good Life Happen—The Lunch
Wednesday, November 19, 12–1:30 pm

WINE & CHEESE GATHERING, Oakland Office
The Women's Roundtable: Taking Charge of Your Financial Future
Wednesday, December 17, 6–7:30 pm

WEBINAR
2014 Review and 2015 Preview
Wednesday, December 17, 2–2:30 pm

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!

Reminder! Applications for the 2014 Bell Youth-in-the-Arts Grant are due September 19. Spread the word to worthy Oakland agencies and programs supporting youth in the arts! Info & application: http://www.bellinvest.com/about/bell-youth-arts-grant

Who Ya' Gonna Call? Stressbusters!!

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

After reading Jim's article here in the Opening Bell, I started thinking about all the research that indicates stress is not only bad for you, but can kill you! But because the subject of stress is so vast, no one seems to have the final answer to the good stress/bad stress conundrum for every individual, because individuals are so, well, different. The only thing we know for sure is that when it comes to stressbusting, one size never fits all.

Knowing I would be writing this article about stress today, I went to bed thinking about it, and just before waking up this morning, the word "stressbusters" popped into my head. I chuckled at the idea that I'd just unconsciously made up a very clever title for my article. As soon as I got to the office I Googled "stressbusters," and voila: there was a goldmine of stressbusting sites! Clearly I was not the first person asleep *or* awake to think of the word.

Seven Simple Stress Busters

Within minutes, I found a pretty good stressbusting site at SparkPeople.com. There, blogger Zach Van Hart had written *7 Simple Stress Busters*: 1) Take a walk; 2) Call a friend; 3) Write in a journal; 4) Play a board game (a simple child's game, e.g., Candyland, will do, apparently); 5) Work up a sweat; 6) Plan something fun; 7) Take a hot bath.

Since these are not things that would necessarily work for me (except taking a walk, because I LOVE taking walks that have no pre-determined destination), Van Hart and I recommend you make a list of your own best stressbusters.

A Better Idea: The Love List

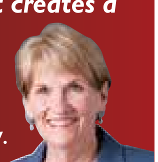
Beyond these stress relievers, I have what I think is an even better idea. It proves itself time and again with my clients as a means of stressbusting in the short run with profound results over the long haul.

Every client I have ever worked with over the years has done this "homework", called The Love List:

Make an exhaustive list of all of the things you LOVE to do. These are **activities**, not **things**, you love. It's the active verb we want here, e.g., I LOVE reading, or listening to music, or writing, or playing basketball, or swimming, or whatever applies. Then embellish the fact in whatever ways are true for you, e.g., I LOVE reading novels; then embellish it again, e.g., "I LOVE reading historic novels when I am cuddled up in front of a fire in my grandfather's rocking chair." This type of thing could also be, "I LOVE reading trashy novels at the beach on a sunny day; or, I LOVE listening to live jazz in the Fillmore on a Sunday afternoon. The requirements are that you LOVE (rather than just *like* an activity.) You have to use the word "LOVE" for each thing on this list, even if you are uncomfortable using that word. Also, it is important that whatever it is, it has the power to sweep you away, cause you to lose track of time, and automatically produce good energy for you. I call this energy "YES Energy," and it is very important. "YES Energy" works to lift your spirits and get your mind off whatever is causing you stress; "YES Energy" is easy, effortless, and enjoyable. You don't have to make yourself do it because someone said it's good for you. You already know what works and what doesn't.

Notice how the Love List creates a window into a person's nature and even "soul."

— Bonnie Bell, MA, MDiv.



It's as if you already have a collection of magic bullets that work for you, so USE THEM every chance you get! Calendar them in among the many things you have to do that you don't really want to do. The activities on your Love List feed you, refresh you, lubricate your life, help you think more clearly, and even help you to make better decisions! ■