Bell Investment Advisors, Inc.

TheOpeningBell

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Bad Medicine

Our firm regularly receives materials from mutual fund companies designed to help with investor education. Often included are colorful depictions of the ills of market timing—meaning moving in between stocks and cash. The argument against market timing seems to always focus on the risk of opportunity cost, which is the possibility of missing gains in stocks while sitting on the sidelines in cash. For example, one common chart shows that missing just the best 20 trading days significantly reduces long-term returns. Another one points out that recoveries happen quickly, with history demonstrating that much of the gains come in the first year. You've seen those stats. In fact, we've shared them with you before, so we won't bother to go into detail. Instead, let's spend our time talking about one risk of market timing that, unfortunately, receives too little attention.

A key role of an investment advisor is to present options to clients and thoroughly explain the potential upside and downside of each option to help clients make informed investment decisions. By solely focusing on opportunity cost, investment professionals are making it appear that the potential of missed gains represents the only risk of market timing, and at the same time, they are ignoring a much more serious risk. That is akin to a doctor disclosing the risks of a new drug to a patient by saying, "There is a chance that this will cause muscle aches," while failing to mention, "There is a chance that this will cause cardiac arrest."

Opportunity cost is just that—lost opportunity. It does not result in the loss of actual dollars. In our experience, many investors find this to be a small price to pay for piece of mind or a good night's sleep in a stressful bear market. But, while market timing may be the medicine that helps cure investor anxiety, there is one potential side effect that can cost investors severely in terms of actual dollars.

The first decision when it comes to market timing is when to exit the stock market. The second decision is when to get back in. Presumably, the decision to exit will occur after the market has already experienced significant losses, and the decision to re-enter will occur after the market has demonstrated that it is in a clear uptrend. There is a common phenomenon within bear markets that makes this re-entry decision very difficult. It is known as the "bear market rally." Basically, it is a false rally, a failed attempt by the stock market to shift from bear to bull. The problem is that in real time, when you need to make the re-entry decision, you cannot know the difference between a sustained rally and a bear market rally.

The table above shows the number of double-digit bear market rallies in each of the S&P 500 Index's bear markets since 1950. As you can see, seven of the last nine bear markets (including this one) had at least one double-digit bear market rally. Of those seven, four contained multiple double-digit bear market rallies. The average bear market rally gained 16% with the largest being 24%.

S&P 500 Index # of Double-Digit Bear Market Rallies	
Aug 56 to Oct 57	1
Dec 61 to Jun 62	1
Feb 66 to Oct 66	0
Nov 68 to May 70	0
Jan 73 to Oct 74	2
Nov 80 to Aug 82	2
Aug 87 to Dec 87	1
Mar 00 to Oct 02	4
Oct 07 to ?	3

What makes the bear market rally so dangerous is that a double-digit gain in stocks over a period of just a few weeks or months inspires confidence. It makes investors think that the worst is over. For a market timer, this can represent the signal to get back into the market, only to have the rally fizzle and the market fall back to its lows, thereby compounding their losses.

To illustrate, let's first consider a long-term investor, one who rides out bear markets by staying invested. This investor endures the full brunt of the bear market by riding it down to its ultimate bottom, but he/she is in position to take full advantage of the recovery as well. More importantly, no matter how many bear market rallies occur, the long-term investor can do no worse than the market return. If the market loses 30%, so does the long-term investor.

As for the market timer, he/she has the possibility of compounding the losses caused by the bear market by mistiming his/her exit from and entrance into the market. The market timer rides the market down 30% just like the long-term investor. But instead of staying invested and waiting for recovery, the market timer goes to cash at this point to prevent further losses. Now the market rallies 16%, the average bear market rally. With confidence renewed, the market timer gets back into the market; but, it proves to be a false rally, and the market declines back to its low point (down 30%). That scenario translates into a loss of 14%. Add that 14% loss to the 30% loss already caused by the bear market, and the market timer is now down 40%. Make this same mistake again, and the market timer is down 48%. Get fooled by a third bear market rally, and the market timer is down 55%. If four bear market rallies occur like in 2000 to 2002, the market timer can be down as much as 61% if he/she mistimes the moves in and out of stocks. That represents twice the loss caused by the bear market!

Market timing may seem like the cure for the stress caused by bear markets, but it is more risky than the bear market itself. If you are feeling stressed about your investments, it is likely that you are taking more risk than your comfort zone allows. In that case, the best treatment is a dose of risk reduction—a move into a portfolio that better meets your risk tolerance and is more likely to keep you invested when times get tough. To have a discussion about how you can reduce the risk in your portfolio and how it would affect your financial goals, please give us a call. ■

1111 Broadway
Suite 2130
Oakland, CA
94607-4063

Phone 510.433.1066 Fax 510.433.1067 Toll Free 800.700.0089 info@bellinvest.com www.bellinvest.com

Account Performance Report through March 31, 2009

Since 1999 we have calculated the average and median returns 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:

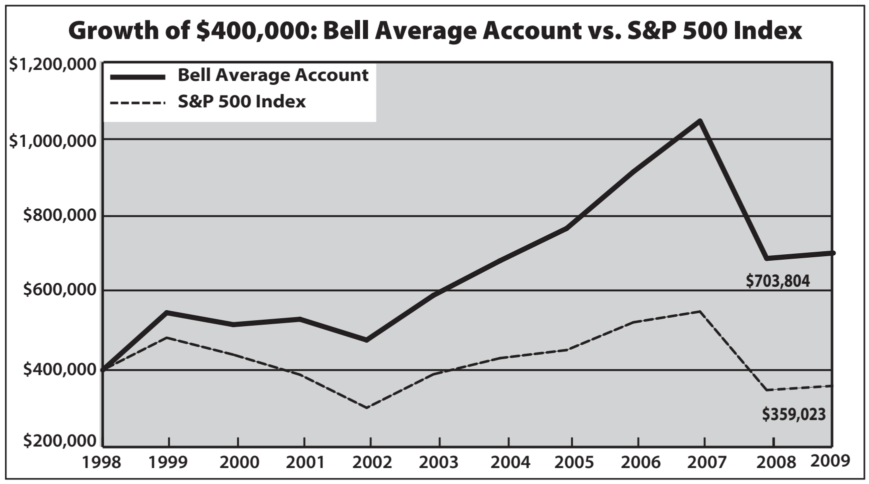
Matthew P. King, CFA

This table compares our average and median account performance compared to five of the major market indices. While you cannot invest directly in any of the indices listed above, it is interesting to note that the most popular index, the S&P 500—with more than $1.53 trillion indexed to it—lost 22.6% since the start of 1999.

	2009	January 1999 to March 2009	
Index	**Year-to-Date**	**Total Return**	**Annualized Return**
Bell Average Account (1)	-6.3%	61.5%	4.8%
Bell Median Account (1)	-5.9%	60.5%	4.7%
Dow Jones Industrial Average (2)	-12.5%	3.2%	0.3%
S&P 500 Index (2)	-11.0%	-22.6%	-2.5%
Nasdaq Composite (2)	-3.1%	-30.3%	-3.5%
Russell 2000 Small Cap Index (2)	-15.0%	14.6%	1.3%
MSCI EAFE Index (2)	-13.9%	-3.2%	-0.3%

Meanwhile, our Active Portfolio Enhancement® methodology has produced gains over 60% for our clients since 1999. Our advantage lies in our proactive 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.



You have seen our performance in terms of percentage return. Here is how our average account performance since 1999 compares to the S&P 500 Index in dollars and cents. The graph above shows the growth of a hypothetical $400,000 investment made in January 1999. ■

Notes: (1) These accounts include the effects of Bell's management fee, mutual fund expenses, Schwab transaction fees, short-term redemption fees, and cash holdings. (2) These returns do 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 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 "Growth of $400,000" graph represents a hypothetical investment of $400,000 made at the end of trading on December 31, 1998, and is based on the returns produced by the average Bell account and the S&P 500 Index, neither of which can be invested in directly.

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 Dow Jones Industrial Average is an unmanaged, price-weighted index of 30 large-cap stocks. More information can be found at www.dowjones.com. The Nasdaq Composite is an unmanaged, market-cap weighted index of all-cap stocks listed on the Nasdaq Stock Market. More information can be found at www.nasdaq.com. The Russell 2000 Index is an unmanaged, market-cap weighted index of small-cap stocks. More information can be found at www.russell.com. The MSCI EAFE Index is an unmanaged, unhedged, market-cap weighted index of foreign stocks commonly used to represent developed stock markets outside the United States. More information can be found at www.mscibarra.com. None of 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. ■

GETTING BACK ON TRACK: Managing your personal turnaround

In 1888's *Twilight of the Idols*, German philosopher Friedrich Nietzsche famously wrote "what does not kill me makes me stronger." I can't think of a more apt philosophy for dealing with the global carnage of 2008. Financial and real estate markets across the globe certainly did their best last year to kill the investor in all of us.

Just how strong each of us will emerge from last year's financial derailment will depend on the actions we take to recover—to get back on track. In this edition of *Opening Bell,* we're going to offer you a roadmap to recovery. In that regard, and since we're quoting great philosophers, we may as well tip our hat to Yogi Berra, who said, "You've got to be very careful if you don't know where you're going, because you might not get there."

In a landmark study conducted on graduating students of the 1979 Harvard MBA program, graduates were asked, "Have you set clear, written goals for your future and made plans to accomplish them?" A tiny three percent of the graduates had written goals and plans, 13% had unwritten goals, and 84% had no specific goals.

Tracking that same class ten years later, the findings were remarkable: The 13% of the class who had specific, unwritten goals had average earnings that were double the no-goals group. But that 3% with written goals were earning, on average, *ten times the other 97 percent put together.*

We strongly recommend you start getting back on track by reexamining your financial goals and, as appropriate, adjusting them. We offer some ideas for you in this regard, and will be delighted to help you in any way we can.

Real Estate—the 800 pound gorilla on your balance sheet

Perhaps what made the carnage in equities seem even worse was the dramatic drop in real estate values, a double-whammy wealth effect we can only call a "major bummer" (we know, we're prone to using technical terms). According to the S&P/Case-Shiller U.S. National Home Price Index, home prices fell 18.2% nationally in 2008. As an example in the Bay Area, the California Association of Realtors reports that the average price of a home in the city of Santa Rosa lost 39.8% of its value last year.

So what to do? While real estate is not our specialty, there are a few simple things you should do. Number one on that list is lower your debt service costs while mortgage rates are so low—as we write this, many lenders are offering rates under 5%. Given the spectacular rise in the money supply and the unprecedented spending by the government, it's prudent to expect a return of inflation—and higher interest rates—in the not-too-distant future. You'll be thrilled with a 4.75% mortgage if inflation rises the way it did in the 70's and early 80's.

Refinancing from an adjustable rate mortgage to a fixed one is such a no-brainer we hesitate to mention it—but you should do so without delay if you plan to be in your home indefinitely.

There are many lenders and many programs out there, and they offer an often bewildering variety of terms, points, and structures. We strongly suggest you conduct a thorough review of your situation while interest rates are so attractive. If you would like a referral to a competent and qualified mortgage specialist, we'd be happy to recommend one to you.

Tax-Advantaged Retirement Accounts

For an awful lot of us, one clear mandate has emerged from all the storm and stress in the markets*: we have to save more.* And the best place to save (and invest) is in a qualified retirement plan.

We think most financial advisors would agree on two points: when it comes to retirement plans 1) virtually everyone has too many accounts and 2) virtually no one pays enough attention to them. Do you have old 401(k) plans from old jobs that are just sitting there? Do you have multiple IRAs? That situation is not only inefficient and expensive, it's a terrible waste of real money.

Gather together your most recent statements from these accounts, and we'll help you roll them over into one, streamlined account. This process will also give you a chance to check and perhaps update your beneficiary designations.

Employees of firms with 401(k) plans can contribute up to a maximum of $16,500, and those over 50 can add in another $5,500. If you're self employed, the maximum contribution in 2009 for SEP IRAs is $49,000 and up to $54,500 for Individual 401(k) accounts—dramatically above the standard IRA contribution of $5,000 ($6,000 for those 50+). The rules can be complex, but we'd be happy to consult with you on the best plan to fit your goals.

Some investors may benefit from the *Tax Increase Prevention and Reconciliation Act* (TIPRA), passed in 2006, which waives the income ceiling of $100,000 for Roth conversions after the 2009 tax year. The benefits of Roth IRAs can be truly substantial for retirees and their heirs, and can be as much as *twice the amount converted.* There's a short-term hit, though, in that the amount converted is subject to tax as ordinary income. How long the breakeven period will be requires some complex modeling, but we'd be happy to work up the numbers with you.

Risk and Reward

We believe that investors will look back on 2009 as a time of great opportunity—a great chance to buy low. But we're also aware of the psychological and emotional toll markets have taken on investors. If you haven't done so already, we recommend reviewing your risk allocations to find the blend of risk and return that fits best with your goals—and your stomach.

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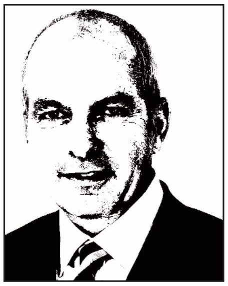

Dave O'Rourke

Continued from inside

James F. Bell, CFP®

One thing we've learned in our years in this business is this: *it's reasonable to expect the world to change.* The best investors stay active and aware and are always prepared to move between foreign and domestic, developed and emerging, large and small cap, value and growth, and among the many sectors and industries of the world economy. With rare exception, and late 2008 was one of them, the general rule that *something is always up* should fuel optimism for investing in a developing world.

A Checklist for the Successful Investor

Check Titles. Are your accounts titled to reflect the reality of your situation? Proper titling can avoid probate, lower costs, and save you time and money.

Where There's a Will There's a Way. Do you have an up-to-date will and durable powers to cover life's unexpected events? If you do, and you haven't reviewed your will in five years or more, you should do so without delay. And if you don't, just know a well structured plan can save your heirs a great deal of time, aggravation, and money. We can recommend a well qualified attorney to help you if you like.

Plan for College. 529 education plans are fantastic vehicles to save for college, and may make sense even for 16-year olds. The plans vary widely from state to state but the benefits can be very compelling. We'd be happy to help you think through whether these plans make sense for you.

60 is the New 40. If it seems that you'll have to delay retiring from your career, or find a new occupation in your emeritus years, our Career and Life Planning offer may be worth a look. We can help guide you through a personal assessment process to unlock the best "second act" strategy to fit your personal and income needs.

Manage Your Risk. Are you adequately insured? Do you have an umbrella policy to cover the unfortunate slips, falls, and accidents in life? Is your life insurance policy up to date and adequate to the needs of your heirs? It may be wise to "top up" your coverage in case the worst happens before your financial accounts have fully recovered from the crash.

If I'd Known I Was Going to Live This Long… Should you consider long-term care insurance? How about Health Savings Account (HSA) compatible, high-deductible health insurance? We can talk through these subjects at a high level with you and recommend a qualified risk management expert if you need one.

Pay it Forward. How many of you wish you'd started saving earlier? Youth does not have to be entirely wasted on the young, and you may want to consider sitting down with your children to share your lessons with them. They can benefit from your experience and hard-earned wisdom.

Ask for Help. Whether you need to adjust your risk allocations, get a professional referral, talk through your career plan, or get an in-depth financial plan, we're here to help. And we *want* to help, in any and every way we can. We've learned that planning and goal-setting are the most important ingredients in achieving success. ■

Bell
Investment
Advisors,
Inc.

1111 Broadway
Suite 2130
Oakland CA
94607-4063