



The Cost of Liquidity

by Matthew P. King, CFA, Managing Director, Chief Investment Officer

Everything has a cost. As is often said, there's no free lunch. How much easier are our lives thanks to inventions like smartphones and the internet? I hate to imagine my life without either; yet, each has its price—less privacy, less alone time, and information overload (or TMI as those texting kids like to say). Watch any television commercial for a prescription medicine designed to cure what ails you, and by the end of the 30-second spot, the narrator will kindly remind you that the cure has a cost in the form of a potential host of side effects.

When explaining our investment philosophy to new clients, we always list liquidity as one of the benefits, and it certainly is a benefit. We only invest in mutual funds and ETFs—one of the key reasons being that, as trend followers, we need to be able to move in and out of an investment quickly if the trend changes course. Additionally, if a client calls with a redemption request, we can sell out of a security at a fair price and have the money available to them in as little as one business day.

With illiquid investments such as real estate, private equity, or land, it can often take months or years to sell, and if you need to sell quickly, you will likely have to sell at a significant discount to fair value. So liquidity certainly has its benefits, but it also has a cost.

Simply put, the cost of liquidity is the price volatility that you have to deal with on a daily basis. Because a market

always exists for liquid securities, there are always trades occurring, which means that the price is constantly changing—day-to-day in the case of mutual funds or second-to-second in the case of stocks and ETFs. Those constant price changes result in volatility, which is one of the toughest things to deal with as an investor—to see your assets fluctuate in value in real time, especially when that fluctuation is

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— Matthew P. King, CFA

occurring on the downside more than on the upside.

Given that many of our clients share that they are worried that we are in for another volatile year in 2012, we thought it might help to provide some tips to deal with, what can be, wild fluctuations in the value of your liquid investments.

Invest in Companies Not Pieces of Paper

It can be easy to forget what you are investing in when you buy stocks. Stocks are not just pieces of paper that fluctuate in price based on supply and demand in the marketplace. If they were, there would be reason to be concerned about price fluctua-

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tuations. After all a piece of paper has no intrinsic value; you would simply be holding out hope that someone would be willing to pay more for it than you did (a.k.a. The Greater Fool Theory). But stocks are not just pieces of paper; they represent ownership in actual companies. Those companies (presumably in most cases) have intrinsic value in that they have earnings, cash flow, dividends, and assets. So when the market drops significantly over a few months or nearly all the stocks in the S&P 500 fall in unison on any given day, remind yourself that you own companies. Certainly you wouldn't sell your company solely because it lost value last week or because someone quoted you a price that was 10% less than what you could have had last month.

All Assets Fluctuate in Price

You may not know it, but the price of your house is fluctuating as you read this. If you own investment real estate or a small business, the price of those assets are fluctuating as well. And so is the price of your art. There are transactions going on right now that are changing or confirming

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Account Performance Report Through December 31, 2011

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:

Index	2011	January 1999 to December 2011	
	Total Return	Total Return	Annualized Return
Bell Average Account (1)	-7.9%	115.9%	6.1%
S&P 500 Index (2)	2.1%	29.3%	2.0%
MSCI EAFE Index (2)	-11.7%	42.2%	2.7%

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, which have produced minimal returns for investors over the last 13 years.

Meanwhile, our ACTIVE PORTFOLIO ENHANCEMENT® methodology has produced an annualized return of 6.1% 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 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.msicibarra.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. ■

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(continued)

the price of all of your assets. In the case of your illiquid assets, you just don't know about it. If there were an exchange for the real-time pricing of your illiquid assets, you would be experiencing price volatility with those as well—the main difference being that it would seem less likely that you would sell your home, business, or art collection just because the price fell.

Space Out the Peeks at Your Portfolio

We often counsel our clients to look at their portfolios less frequently, which they have the luxury of doing because they have hired us to watch over it for them. 2011 provides the perfect example of how checking in on your portfolio less frequently can help ease the stress caused by price volatility. The S&P 500 Index started 2011 at 1,257.64. It closed the year at 1,257.60—a difference in price of just -0.003%. While that still would have made a disappointing year due to the lack of return, it is nothing compared to the harrowing experience of watching the market daily in 2011. In that case, you would have experienced a -19.4% correction over just five months, and 21 days in which prices fell by at least 2%, significant stress inducers that were avoidable if you just paid less attention to the stock market.

Like advancements in technology and medicine, we think the benefits exceed the costs when it comes to liquidity, which is why we always list it as a selling point with new clients. But as any good consumer would, it's important to understand the costs and devise ways to mitigate them.

Just got a text; got to run. ■



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Off Balance, On Purpose

by Jim Bell, CFP®, President and Founder

I read a lot of investment and financial planning literature, and I brightened up in November when I read a brief summary of Dan Thurmon's new book, *Off Balance On Purpose—Embrace Uncertainty and Create a Life You Love*. Dan is a peak performance coach, author and professional speaker. I have not read his book, but I am inspired by his title.

What Does It Mean to You?

I have developed a sensibility that says it is more important for me to understand what words and concepts mean to me than it is to fully understand what they mean to someone else. I don't mean that this is always true for me, but it certainly is in this case. Dan wrote his title with no punctuation: *Off Balance On Purpose*. From what I have gleaned from his website, he does not pursue balance at all. Dan and I both agree that purpose is more important than balance. For Dan, we have to be off balance in order to grow as human beings. Balance is about having equal weight and time devoted to the most important areas of your life: relationships, career, health,

... being on purpose is about achieving significance. Balance is more about comfort.

— Jim Bell, CFP®



spirituality and personal interests. I think we would all agree that it is just not realistic for us to always give these five areas equal time and balance.

Off Balance, On Purpose

While giving full credit to Dan Thurmon, I am writing my article about his concept with punctuation: *Off Balance, On Purpose* because this has special meaning to me. Just as Dan asserts that it is impossible to achieve perfect balance at all times, I think it is unrealistic to dismiss balance altogether. I have come too close in my life to a serious burnout because there have been periods when I have been so driven and so off balance that I had to pull back and seek help to recover myself. I had to stop and restore some balance, or I would not survive.

For Dan Thurmon, balance is about comfort and control. In your life today, how

comfortable are you, and how much are you in control? What about the economy? What about your political vision for the U.S. and the world? Dan concludes that life itself is off balance so balance is unrealistic to pursue.

My Weekends On Purpose

I am *on purpose* this weekend, right now. It is 8 p.m. on Saturday night and I am not watching the New Orleans Saints play the Detroit Lions. I feel much more deeply satisfied writing on purpose than I would be watching football. I will sleep tonight in a mood of satisfaction because I did this work, which I thoroughly enjoy.

I was on purpose another weekend many years ago. Out of college for a year or so I was still working in the food service industry, which is how I had put myself through college and where I had received a lot of on-the-job restaurant training in jobs from dishwasher to dinner chef. With a BA in English, my intention—purpose—was to pursue a career in publishing. I realized one day that I had better get to it or my intended career might get derailed. Once I finally got a weekend off, I spent 16 hours on Saturday and 16 hours on Sunday being on purpose.

36 Resumes

I found 36 California publishing companies and sent out 36 hand-typed and customized resumes and cover letters that weekend, a very labor-intensive project particularly as this was long before personal computers and home printers. By Monday morning, I had finished my life-saving project over a memorable and decidedly off-balanced weekend. Being on purpose I find to be far more significant and memorable than being balanced. There's a bumper sticker I see every day in our building's parking lot: "Well-Behaved Women Seldom Make History." *Mis-behaving*, too, can be a way of being off balance, on purpose.

Significance

On that memorable weekend, my friends had wanted me to go to the park to play touch football and then go out drinking. I wouldn't remember or be writing about that weekend if I had chosen that option. I received one call and got one job from those 36 resumes, and that one job improved my career trajectory forever. I

was introduced to mainframe data processing, which ultimately opened the door to my career as an investment professional. I received management training and became the director of two departments, which in many ways contributed to my being able to start Bell Investment Advisors.

For Dan Thurmon and me, being on purpose is about achieving significance. Balance is more about comfort. My purpose right now is to continue building and developing Bell Investment Advisors and to devote the rest of my time and love to my family (we are welcoming our second Berkeley grandchild in February). Trips to Europe and the tropics don't call to me right now. I know my purpose, and I embrace it gladly even if I have to balance on one leg. ■

UPCOMING EVENTS



WEBINAR

"Making a Good Life Happen in Retirement"

January 18, 2–2:30 pm PDT

LUNCH AND LEARN

"Investing in the New Normal"

January 25, noon–1:30 pm PDT

LUNCH AND LEARN

"Even High-Performing People Need Coaches"

February 17, noon–1:30 pm PDT

WEBINAR (CLIENTS ONLY)

"Investment Committee Update"

February 28, 2–2:30 pm PDT

WEBINAR

"Should Your Financial Plan Include an Education Plan?"

March 21, 2–2:30 pm PDT

"Making a Good Life Happen: the Lunch"

March 28, noon–1:30 pm PDT

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Is It All About Balance? Or Something Else?

by Bonnie Bell, Principal, Director, Career & Life Coach

My problem with the ubiquitous *balance conversation*, especially around New Year's resolution-making time, is that it never really goes anywhere. It's too simplistic. Most often the premise of the common resolution *to be more balanced* is that we are all stressed-out from working too hard, and, therefore, we must resolve to . . . what? Get more massages? Exercise more? Learn to meditate? Take yoga? Take more time off? These may all be helpful in reducing blood pressure and creating more peace and pleasure, but is that what it's really all about?

The Big Picture

In this issue of the Opening Bell, Jim talks about the possibility that being *on purpose* might actually be more important—and satisfying—than achieving *balance* (whatever that is). This year, let's put the whole *balance conversation* aside and create a different one—one about the Big Picture: your life. Rather than attempting a fierce resolution to do something the *evil twin within* is going to fight you tooth and nail over until you cave in by about the 15th of the month, let's attempt a new strategy: it's called *Reflection*, and the kind I'm talking about deserves the capital R.

The Unbidden State

By *Reflection* I mean a particular mood or state that most often arrives unbidden, maybe when you are sitting on a comfortable sofa gazing into the fireplace or lying on the beach in the sun, or just sitting ocean-side mesmerized by the ebb and flow of the waves. You find yourself reflecting on your life—you are lost in thought. It is often in this relaxed state of enjoyment,

that important insights emerge, creative ideas develop. Even great music and scientific discoveries have been the result of such states. Charles Townes, the renowned physicist, Nobel Laureate and Professor

. . . *intentional reflection is a form of action.*

— Bonnie Bell, Principal



Emeritus from U.C. Berkeley is known for discovering the maser beam, precursor to the laser. He solved the scientific problem with which he had wrestled and labored for many years, not in the laboratory where he spent most of his time, but while sitting on a park bench on his lunch hour enjoying the sun and watching the birds. He described the episode as being a *religious* experience. Everything came together for him in an unbidden instant.

Intentional Time for Reflection

One of the things that actually gets us off balance is that we don't seem to be intentional about the time we do have, however scarce, and we don't tend to create intentional time for reflection on ourselves and our lives. Reflection is constitutive to being human. However many things we share with animals biologically, the ability and tendency to reflect on the meaning of life is not one of them. Reflection requires language, memory, feeling, judgment, a sense of self, a perspective, a point of view, and will, all of which result in an implicit desire for a good or better life, which requires intentional reflective

time. Contrary to popular belief, intentional reflection is a form of action.

The results of intentional reflection—time specifically set aside in a relaxing, enjoyable atmosphere for the express purpose of reflecting on your life and yourself—can be immeasurable. This year, why not avoid both the balance question and the resolutions and intentionally take some time to reflect on these things: What's working in your life? What's not? What activities do you love to do? Are you doing them enough? What's not working in your life? What or who tends to bring you down or cause you pain? Do you need to avoid them? What do you care about most? Are you attending sufficiently to that concern? What do you want your life to say when you are gone?

Jot down your reflections in a notebook—just simple bullet points—allow them to prioritize themselves, and gradually begin to develop a gentle plan of action to move yourself closer to the life you want and intend to have today, tomorrow, this week, this month, next month and for the rest of the year. Keep it simple. You don't have to be perfect, just intentional and focused. Remember who you are and what you are about even as you tread lightly back into your busy life.

Happy New Year! May it be more meaningful, purposeful, and satisfying. For more on this theme, check out my career/life coaching blog and tell me how things are going as the year progresses. ■

You can follow an ongoing discussion at Bonnie Bell's Career & Life Coaching blog: careerlifecoaching.bellinvest.com