BELL INVESTMENT ADVISORS
MOMENTUM FOR LIFE®

The Opening Bell

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Investing Lessons from the Happiest Place on Earth

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

MORE COVERAGE INSIDE

Having survived a week-long road trip to Disneyland a few weeks ago with my two young kids—ages "almost six" and "four and a half" officially—I want to share my wisdom and experience—not about how to conquer all of the rides in both of the resort's theme parks in two and a half days (maybe next quarter's article), but rather the important investing lessons that came to mind as we passed the time in many endless lines.

Manage Your Mood

The most striking thing about Disneyland is that it is literally the happiest place on earth. Everyone is in a great mood all the time—the guests, the employees, the shuttle bus drivers, the restaurant and hotel employees outside the park. It is infectious. While I do not consider crowded theme parks, long waits, and thousands of young children parts of a relaxing vacation, it was actually therapeutic to be forced into such a positive state of mind for a few days.

As an investor, it can be easy to get caught up in the negative news cycle and maintain a steadily pessimistic outlook as a result. Wall Street climbs a wall of worry as they have been saying for a long time. It certainly does not make sense to always maintain an optimistic attitude in regard to the financial markets; that would be Pollyanna-ish and worthy of Fantasyland. However, it is important to be aware of your mood when making financial choices. If you find that your mental state is in a place that is often overwhelmingly negative (or positive), you may be letting your emotional bias influence your investment decisions, which is never a good thing.

The Future Does Not Follow a Linear Path

Within the walls of Disneyland, little changes. This trip marked the first time in 15 years that I visited the park, but it was exactly as I remembered it. I remembered where everything was without the aid of a map, and even that ice cream shop where I enjoyed a banana split at age six was still there serving banana splits. When we make a return trip with the kids in a few years, I am certain everything will be almost exactly as it is today (except the prices, as even Disneyland is not immune to dollar debasement).

While life in Disneyland is steady, predictable, and unchanging, the same cannot be said for the outside world.
– Matt King, CFA

While life in Disneyland is steady, predictable, and unchanging, the same cannot be said for the outside world. However, investors often diagnose long-term risks by incorrectly assuming that the future unfolds in the same linear fashion as it does at Disneyland. For example, in working with clients on retirement planning, Social Security often comes up as a major concern. Should we count on full benefits when the latest annual report from the program's trustees projects that the trust fund will be unable to pay full benefits as soon as 2033? That is just 21 years from now and is the shortest period to an anticipated benefit cut since 1983. Regardless, we advise that our clients rely on their full level of benefits not because we question the report's conclusion, but rather because things change. That 1983 date is significant because it represents the last time that major adjustments were made to fix Social Security, and we are certain that adjustments will be made before 2033 to fix it again.

Whether you are contemplating the risks of Social Security to your retirement plan or the European debt crisis to your portfolio or global warming to your planet, understand that the perceived risks are mitigated to a degree because of human response and adaptation. So the next time you are cautioned of impending doom "if nothing changes,"

(continued on page 2)

Account Performance Report Through June 30, 2012

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:

	First Half 2012	January 1999 to June 2012	
Index	**Total Return**	**Total Return**	**Annualized Return**
Bell Average Account (1)	5.9%	128.7%	6.3%
S&P 500 Index (2)	9.5%	41.5%	2.6%
MSCI EAFE Index (2)	3.4%	47.0%	2.9%

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 insufficient returns for investors over the last 13-plus years.

Meanwhile, our Active Portfolio Enhancement® methodology has produced an annualized return of 6.3% 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.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. ■

Investing Lessons from the Happiest Place on Earth *(continued)*

you can safely conclude that the assumption of a linear future that underlies those warnings is unrealistic in the world outside of Disneyland.

Life Goes On

Like I mentioned at the outset of this article, we managed to do all the rides at Disneyland—yes, even *It's a Small World* despite my better judgment. The repetitively annoying song plays during your entire wait in line and throughout the ride. In fact, somewhere between Germany and Sweden, it dawned on me that the song has been on a constant loop since the last time I visited 15 years ago and long before that. Much has happened in the world since this ride first opened in 1966, but those dolls just keep singing that disgustingly cheery song.

This realization reminded me of a chart that is sent to us periodically by American Funds. It is a standard graph of the performance of the Dow Jones Industrial Average since the early 20th century. The only difference between it and your run-of-the-mill stock chart is that they have included every major event—both world and financial—during that near 100-year period. The lesson is simple: lots of things both good and bad have occurred over the years, and yet businesses, and hence the stock market, continue forward. It's a resilient world after all.■

Of Interest!

- *Employee Engagement: The Key to Growth, Creativity, and Customer Satisfaction* white paper for business owners at bellinvest.com
- *The United States of Europe*, blog post at financialadvisorblog.bellinvest.com
- The Bell Youth-in-the-Arts Grant information and application at bellinvest.com/about/community

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The True Value of Compromise: Simpson-Bowles

by Jim Bell, CFP®, President and Founder

For the past eight years, Bonnie and I have been very grateful to be invited to the annual Schwab EXPLORE Conference for the top 100 fiduciary investment managers in the country who use Schwab as the custodian for their client assets. Last month, the highlight of the 2012 conference in Dana Point, California, was the presentation by Senator Alan Simpson and Erskine Bowles on ***America's Debt and Deficit Crisis: Issues and Solutions.***

Democrat Erskine Bowles was a businessman and investment banker prior to serving as President Clinton's Chief of Staff. His major responsibility was dealing with federal budget negotiations between the White House and Congress. Alan Simpson, a Republican, served as senator from Wyoming for 18 years. In 2010, President Obama appointed both men to Co-Chair the National Commission on Fiscal Responsibility and Reform.

Thanks to their seasoned leadership abilities and genuine respect for each other, the commission succeeded in producing a balanced, comprehensive plan that if implemented in the near future, could avert the United States from falling off "the fiscal cliff" on which we are now perched. Their relatively simple plan, originally only 12 pages long (now expanded through negotiation among the Commission members to nearly 70 pages in length), the Simpson-Bowles Plan itemizes imperative spending cuts, and at the same time raises tax revenues that are also described as imperative.

There is nothing more loaded and controversial than reforming the federal tax code and at the same time reducing federal spending. The commission, however, succeeded in producing a bi-partisan framework to actually solve the fiscal crisis in 10 years, but it failed to gain any material political support because negotiation and compromise have become the deadliest of sins in present-day Washington, D.C. Simpson and Bowles are not giving up on America yet, because they know from their own personal experience in Washington that flexible solutions have succeeded in the past.

Bowles stood at the podium first and delivered two breathtaking sentences in a row: "We now face the most predictable Economic Crisis in history. Fortunately, I think it's also the most avoidable." He continued to outline for the primary causes of our debt and deficit crisis:

1. Heath Care: Mr. Bowles reported that we spend twice as much on health care as any other of the industrialized nations, yet we suffer highly inferior outcomes. The USA ranks between 25th and 50th as measured by life expectancy and infant mortality. The cost of our health care is growing faster than our Gross Domestic Product, and this is obviously unsustainable. Health Care costs are already 25% of the Federal Budget and they are increasing at a rapid pace. In the face of these facts, it continues to surprise me when politicians defend our Health Care system as the best in the world. Really? By what measure?

2. Defense: We spend more than the next 15 countries combined on defense. Most budgeting for expenditures, whether in the private or government sector, are based on a relative strength analysis. In terms of Defense, the USA wants to occupy the lead position, but must we spend more than the next 15 countries combined to lead with relative strength?

3. Tax Code: Bowles' main point here was that the corporate tax code, which currently rewards behavior that keeps capital offshore, demands reform because it taxes money that is repatriated within our own borders. This is capital that could be used to create jobs. No one would argue with the point that our personal tax code is too complicated. Wouldn't we welcome reforms that would simplify the code, eliminate and modify tax deductions, and result in fewer and lower tax brackets?

4. Compound Interest: Right now, the interest rates on our national debt are at historic lows. Even so, the interest on our $16 trillion national debt runs $250 billion per year. If interest rates were to double, they would still be below normal ranges, yet the interest cost would double to $500 billion. Of every dollar our federal government spends, 41 cents is borrowed.

The work of the commission on fiscal responsibility and reform is currently stuck in a political ditch because it recommends both spending cuts and tax increases to achieve a sustainable path for the future of our country. Most reasonable people on both sides of the aisle agree that the solution requires both spending cuts and tax increases. However, the majority of Republicans are so entrenched in their position regarding "no new taxes" that it has become a threat to our very survival as a country.

Simpson and Bowles will continue to travel the country promoting their balanced and bi-partisan solutions. I admire both men for their dedication and service. Senator Simpson is the elder of the two at 80 years-old. Neither man needs to be working and traveling as much as they are, but they are determined to forge a path away from this cliff of certain disaster. They believe in the tradition of compromise between the parties that is basic to our history as a nation.

Their work is vitally important because it is just about the only example of bi-partisan cooperation we can see with our own eyes when we watch the two make appearances together as genuine colleagues and friends – each full of wit and wisdom from his own unique perspective. As they expressed quite honestly, everyone has something to hate about what needs to be done, and that makes us all equal.

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– Jim Bell, CFP®

They have insulted every sacred cow in the country at this point. Our country is so evenly divided that bi-partisan compromise is the only way out.

Our policy solutions need to be flexible just like our modern buildings in California, which are designed to absorb and withstand earthquakes. As Simpson-Bowles have outlined in the Commission's Plan, we can solve our severe fiscal situation with reasonable adjustments to Social Security, Medicare, Defense, and Tax Reform.

I asked Simpson and Bowles directly if they could see any hope in light of the current political stand-off. Bowles reported that he had just met with a bi-partisan group of 60 senators who requested help moving the ball down the field. As mature, reasonable adults, I think we need to advocate for the Simpson-Bowles recommendations. It may be our only hope. ■

The Evolving Stages of Life

by Bonnie Bell, Principal, Director, Career/Life Coaching

Chances are that when you were studying the developmental stages of life in sociology or psychology, there were essentially four: childhood, adolescence, adulthood, and old age. According to current research, there are at least six: childhood, adolescence, *odyssey*, adulthood, *active retirement*, and old age. (David Brooks, ***The Social Animal: The Hidden Sources of Love, Character and Achievement***, pp. 190-191)

Without my saying one more word, I'll bet you can speculate yourself about what these newly-acknowledged stages of life are all about – especially if you are between 20 and 30 years of age, give or take a few, or if you have children who are. In the latter case you may be wondering why it's taking them so long to find their way. And if you are nearing retirement, you may be wondering why it's taking you so long to figure out what you're going to do next. So many decisions to be made! Keep working? Quit working? Do something different? Work part-time? Start a business? Pursue a college or graduate degree? Move? Stay where you are? Fulfill a need? Follow a dream?

Ironically, there are similarities between these two newly-recognized life stages, even though they occur at different ends of the spectrum. Since we've already paid quite a bit of attention to the active retirement stage, we're going to focus here on *odyssey.*

The Odyssey Stage

I, for one, am thrilled that someone has finally named the stage between 20 and 30 for what it actually is—a time of wandering—not what we have been told it would be or should be.

As a career/life coach I have dealt with hundreds of clients, boomerang and otherwise, struggling through this decade, and I'll tell you something: they are not feeling good about it, and they are not trying to get your goat! The fact is that post graduation, the rubber finally hits the road. A dawning awareness occurs: finding one's way in the world is going to be harder than it seemed from afar. I have observed that young people in this age group tend to be deeply thoughtful and honorable. They take their lives seriously and want to make good choices. They fear they won't.

> ***. . . someone has finally named the stage between 20 and 30 for what it actually is, not what we have been told it would be or should be.***
>
> – Bonnie Bell, Principal

Over time, people mostly do find their way to *adulthood*, which, Brooks notes, is generally defined by four major accomplishments: moving away from home, getting married, starting a family, and becoming financially independent. Just *when* young people accomplish these things has changed radically since 1960, when "70 percent of American thirty-year olds had accomplished (them). By 2000, fewer than 40 percent had done the same."

Time to face the facts: the "wandering" years are already upon us. And what's the big rush, anyway? ■

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

UPCOMING EVENTS

WEBINAR (CLIENTS ONLY)
Investment Committee Update
Wednesday, August 22, 2-2:30 pm

WEBINAR
How the November Election Results Could Affect Your Portfolio
Wed., September 19, 2-2:30 pm PDT

LUNCH & LEARN
Understanding Employee Stock Options—A Primer
Jeffrey M. Glick, CPA
Wednesday, September 26, noon-1:30

WEBINAR
Small Business Tax Planning
Anthony Liang, Esq.
Wednesday, October 17, 2-2:30 PDT

LUNCH & LEARN
Why Education Should Be Part of Your Financial Plan
Wednesday, October 24, noon-1:30

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