BELL INVESTMENT ADVISORS
MOMENTUM FOR LIFE®
# The Opening Bell
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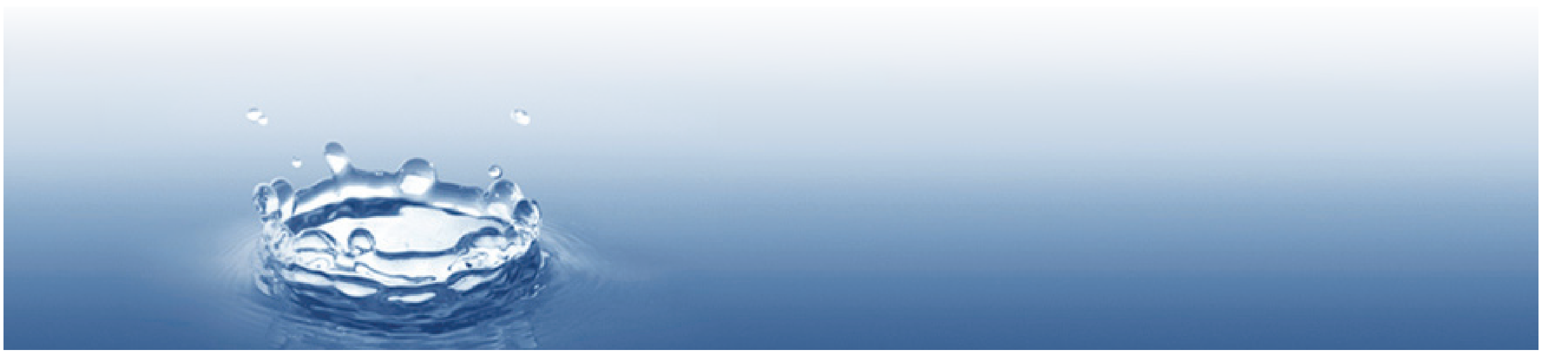

## A Cure for What Doesn't Ail Us

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

My mother-in-law is not a doctor, but she has a home remedy for everything. Anytime I am sick or in any type of discomfort, she whips up some type of herbal drink or ointment. My wife says that this has always been the case, going back to her childhood. Sometimes they work, and sometimes they don't. Typically though, they are foul-tasting and smelling. When they do work in curing my affliction, it is likely more of a placebo effect than good science, but results are results (and of course all due credit is given to my mother-in-law). Naturally, I only succumb to her home remedies when my condition is not anything serious, such as a cold or mild sunburn. For anything more serious than that, I head straight to my doctor's office.

My mother-in-law and Federal Reserve Chairman Ben Bernanke have one thing in common. Neither one of them is a doctor—well, in Mr. Bernanke's case, not "that kind of doctor." Ben Bernanke is, in fact, a doctor as he received his Doctor of Philosophy in economics from MIT in 1979. Despite that indisputable fact, I would show up on my mother-in-law's doorstep before visiting Dr. Bernanke at his Washington, D.C. office for medical treatment. Obviously, not being a medical doctor, he doesn't have the necessary tools—education, experience, medical license—to perform that kind of service (and being a man of science he's probably not a big believer in home remedies). While it seems unlikely that anyone would ask Dr. Bernanke to treat their illness, he and his colleagues at the Federal Reserve are being asked to treat an economic malady for which they lack the necessary tools to fix.

### Cyclical vs. Structural Unemployment

The Federal Reserve has the dual mandate of full employment and price stability—keep unemployment near its natural rate and inflation manageable. But there are two types of unemployment—cyclical and structural. Cyclical unemployment is the natural ebb and flow of employment as a result of the business cycle. In good times, businesses hire, pushing the unemployment rate down. In lean times, businesses cut costs by cutting jobs, and the unemployment rate rises. Structural unemployment results from a disparity in the skills, education, and experience of unemployed workers and the requirements of the open jobs in the marketplace.

*Dr. Bernanke . . . and his colleagues at the Federal Reserve are being asked to treat an economic malady for which they lack the necessary tools to fix.*
– Matthew P. King, CFA

The Fed has tools to battle cyclical unemployment but not structural. You fight cyclical unemployment with easy monetary policy. Lower interest rates to get the economy moving and encourage businesses to spend, invest, and borrow, which ultimately leads to them hiring again. But, the reason today's unemployment rate refuses to budge despite historically loose monetary policy is because we are facing unemployment that is largely structural in nature.

With an unemployment rate hovering around 9%, it should theoretically be easy for employers to fill vacancies. Yet, according to McKinsey Global Institute's June report entitled, "An Economy that Works: Job Creation and America's Future," which surveyed 2,000 U.S. companies, nearly two-thirds of respondents reported difficulty in filling job openings, and 40% had open positions for at least six months due to an inability to find suitable applicants. Anecdotally, our small business has experienced the same frustration in hiring this year in that it has proven much more difficult and took much longer to fill positions than one would expect in an economy with 9% unemployment.

Asking the Fed to cure unemployment when it is largely structural is like asking Dr. Bernanke to cure a throat infection. They simply don't have the necessary tools to fight it. As we have witnessed, loose monetary policy does little to help the situation when the skill set of the unemployed does

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# Account Performance Report Through September 30, 2011

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:

| | YTD 2011 | January 1999 to September 2011 | |
|---|---|---|---|
| **Index** | **Total Return** | **Total Return** | **Annualized Return** |
| Bell Average Account (1) | -16.1% | 96.7% | 5.5% |
| S&P 500 Index (2) | -8.7% | 15.6% | 1.1% |

This table compares our average account performance compared to the S&P 500 Index. With approximately $1.1 trillion indexed to it, the S&P 500 has come up well short of expectations since the start of 1999, producing an annualized return of just 1.1% per year.

Meanwhile, our Active Portfolio Enhancement® methodology has produced an annualized return of 5.5% 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 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. Neither the Bell Average Account nor the S&P 500 Index can be invested in directly. The composition and volatility of Bell's client accounts vary and may significantly deviate from the S&P 500 Index over time. ■

## A Cure for What Doesn't Ail Us

*(continued)*

not match companies' demands. Cures for structural unemployment include training initiatives, education programs, and incentives for businesses to hire those who have been out of work the longest—all of which fall outside the Fed's domain.

### What Should Investors Do?

Regardless, the Fed has to try to fulfill its goal of full employment the only way it knows how and the only way it can—via easy monetary policies. The end result will be above average inflation (already running at 3.8% versus a 3.1% historical average) and a stubbornly high domestic unemployment rate, unless Congress quickly addresses the structural issues at hand. For investors, the implications are as follows:

- Invest in bonds defensively by avoiding Treasuries, which do not yield enough to cover present or the projected future rates of inflation. Instead, focus on bonds that provide current yields above inflation (i.e. intermediate-grade corporates, high-yield, munis for high income earners, and emerging market bonds).
- Maintain at least a portion of your portfolio in growth assets like equities, commodities, and real estate that provide an expected return more likely to outpace inflation than bonds.
- Get comfortable with the idea of investing in risk assets despite a high unemployment rate, something that has been difficult to reconcile for many of our clients. There is no correlation between changes in the unemployment rate and future equity returns.
- Given the high volatility in the market recently, drink a glass of water with lemon and sugar for an uneasy stomach. (That tip is from my mother-in-law.) ■

**NEW: Bell podcasts!**
Recordings of our white papers and selected articles will become available at bellinvest.com in our Resource Center. Our first, now ready to download, is the white paper, *Business Succession Planning: A Short Course.*

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# The Perfect Invitation

by Jim Bell, CFP,® President and Founder

I am beginning to think that introductions are everything. Thanks to an introduction from John Tregenza, our Director of Client Development at Bell Investment Advisors, Bonnie and I met Judith Brown Meyers, Ph.D., an international policy consultant with many years of experience helping the tiny Buddhist Kingdom of Bhutan (population 650,000) nestled in the Himalayas.

Dr. Meyers has spent many years advising Bhutan on various matters, including the Bhutan Trust Fund for Environmental Protection and the Royal Society for the Protection of Nature. Since there are no local capital markets for these organizations, their funds are managed in the USA. Following her recommendation, the Bhutan Trust Fund invited us to make an educational presentation in the Bhutanese capital city of Thimphu about the Practice of Investment Management in the United States.

### Material and Spiritual Integration

The more I learned about Bhutan, the more I felt that this may be the most perfect invitation of my professional life. The mission of Bhutan as a nation and a culture is to integrate and harmonize the material world and the spiritual world. In Bhutan you quickly experience that there is no separation of church and state. Monks and monasteries, temples, and prayer flags are everywhere, woven into the fabric of the culture. The *monk body* (approximately 5,000 men and women) shares facilities with the offices of parliament and the various government departments in large, exquisite, traditional structures called Dzongs.

The material and spiritual dynamic of Bhutan appeals to me because, in many ways, it has been the challenge of my own life. When I was 13, I was captivated by the New Testament assertion: "No servant can serve two masters; for either he will hate the one, and love the other, or else he will hold the one and despise the other. Ye cannot serve God and mammon." (Luke 16:13) Immediately I felt there must be a middle path, a harmony between the material and spiritual.

### Gross National Happiness

Bhutan traces its royal history from 1907 to the present time and fifth king, the Oxford-educated, 31-year old Jigme Khesar Namgyel Wangchuck, who, by the time you read this, will have been married for about one week. It's a very exciting time in Bhutan right now because of its own Royal Wedding.

It was the current king's father, Jigme Singye Wangchuck, who in 1972 declared a democracy in Bhutan and famously said that as the country began to connect with

> *Deep inside, I felt there was a middle path, a harmony between the material and spiritual.*
>
> – Jim Bell, CFP®

the rest of the world, it would continue to care more about the Gross National Happiness of its people (GNH), than its Gross Domestic Product (GDP). This concept has now echoed around the world and was most recently adopted as part of the official platform of the United Nations.

At the heart of Buddhism in Bhutan is a reverence for nature. Bhutan is committed to preserving the incredible natural beauty and uncommon culture that values kindness as its deepest value. They do not intend to materially develop like their closest neighbors, Nepal, Tibet (now China), and India, where the *modus operandi* seems to be "environment be damned."

### Global Considerations

In harmony with Bhutanese aesthetics, Bonnie and I decided to have Nancy Isaacs, our Marketing Communications Specialist, and Erica Padgett, our summer Media Intern from U.C. Davis, photograph our Japanese garden, koi pond, and tea house as graphic background for our PowerPoint presentation. On September 14 in Thimphu, Bhutan, we were able to connect with our audience of government ministers and business executives around our personal respect and reverence for nature celebrated at our home in Berkeley.

Ms. Bing Chan, our Director of Relationship Management, suggested that we bring as a gift a recording of the World Concerto for Cello and Orchestra, which we commissioned from well-known American (and Bay Area) composer, Nolan Gasser. This concerto premiered at the Oakland East Bay Symphony in January 2009. The theme of the concerto represents our global strategy and philosophy as expressed in the phrase *performance without prejudice.* What this means, as it relates to our proprietary momentum-based strategy, is basically that we will invest in markets anywhere on the globe – without prejudice – as long as those funds meet our performance and other criteria as measured by our quantitative technology and qualitative standards.

The concerto dramatizes a musical conversation between four major world cultures: the West, East Asia, India, and Arabia. Buddhism may be the most open and tolerant of all the world religions, so our World Concerto was right at home in Bhutan, and much appreciated by our new friend and primary host, Dr. Pema Choephyel, Executive Director of the Bhutan Trust Fund for Environmental Conservation.

We are grateful for this opportunity to present our personal and professional experiences in a culture that honors the material and spiritual. And it was especially satisfying to collaborate with our whole staff contributing to the quality of our presentation.

Some of our readers and clients may think it is inappropriate to write about this experience when the world markets are so volatile and causing so much pain. Please know that the firm is always in expert hands when I am gone and that I was on email every day in spite of being a 15-hour plane ride away and high in the Himalayas. We are doing everything we know how to do to navigate this market environment. Life goes on regardless of market losses and gains. The material and spiritual persist. ■

## UPCOMING EVENTS

**WEBINAR** (clients only)
**"Investment Committee Update"**
November 16, 2011, 2-2:30 PM PDT

**WEBINAR**
**"Year-End Review and 2012 Preview"**
December 14, 2011, 2-2:30 PM PDT

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

# Jobs, Jobs, Jobs

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

I knew I would be writing something about jobs for this issue of the *Opening Bell* – the topic is on everyone's mind and lips – but I had no way of knowing I would be writing about *Steve Jobs* until he was the one on everyone's mind and lips upon his recent death.

Before I go on, I have to admit a couple of semi-embarrassing things right up front:

1. I've never owned an Apple product – not the Mac nor the iPod nor the iPhone nor the iPad. I have admired them from afar, appreciated their design, believed all the great things everyone else said about them, but I just never went there. I've owned the less dazzling Microsoft counterparts, but I'm just not that into dazzling technology. To me it is all just a means to an end.
2. I really didn't feel any personal connection with Steve Jobs until these past few days when I began learning more about him and about what a truly remarkable human being he was: master designer, marketeer, CEO, and visionary. The media is ubiquitously comparing him to Thomas Edison in terms of his impact on the world, and I agree. My interest in him has skyrocketed.

But remember, I am not a *techie* in any way, shape, or form. My primary passion is for people – people and their passions, you could most accurately say. I am fascinated by what people do with their lives, who they were and who they become, what they love to do, what they care about, and how they respond to the challenges life inevitably brings. I love the hero's journey, the hero, some very famous and some known only known to me.

As I learn more personal things about Steve Jobs, like the fact that he was put up for adoption at birth; that he is Syrian; that as an adult, he reunited with his biological sister and they became close; that he also became close with the daughter he had had out of wedlock and at first denied as a very young man; that he later became very happily married to Laurene Powell, about whom I want to know more; and that his professional path was full of challenges and detours.

*". . . the only way to do great work is to love what you do."* Steve Jobs

– Bonnie Bell, Principal

### Steve Jobs on "Work"

There are two things Steve Jobs said that were particularly meaningful to me and may not have appeared on your radar screen amid the media blitz. Both of them were featured in a major article about Jobs in the San Francisco Chronicle on Thursday, October 8, the day after he died. Both of them were part of his commencement address to the 2005 graduating class at Stanford. He said,

***I didn't see it then, but it turned out that getting fired from Apple was the best thing that could have ever happened to me. The heaviness of being successful was replaced by the lightness of being a beginner again, less sure about everything.***

In the same address, the whole of which is worth reading, he said,

***Your work is going to fill a large part of your life, and the only way to be truly satisfied is to do what you believe is great work. And the only way to do great work is to love what you do. If you haven't found it, keep looking.***

Both of these quotes tell me that Jobs became older and wiser on his human journey, the apt trajectory for all of us as we learn from our mistakes and pain.

When I say, in the course of my work or writing, the very same things, they just don't seem to have the same gravitas as when Steve Jobs says them. From now on, I will quote him instead and see if my words will carry more impact.

Wow. What a life! You kept doing what you loved right up to the very end. Thank you, Steve, thank you for everything. ■

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

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