Bell Investment Advisors, Inc.

The Opening Bell

Volume 20, No. 1/ April 2010

A Moral Dilemma

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

Growing up, I spent grades one through twelve attending Catholic schools, meaning that along with reading, writing, and 'rithmetic I received a daily dose of religious education. For the teachers reading this, I was the kid who asked too many questions, rarely accepting anything at face value. You know the one—that smug, annoying student who keeps raising his hand to ask, "Why?," (or more appropriately in sixth-grade speak, "How come?") instead of allowing the lesson to proceed according to plan. So when the topic of morals was covered in religious studies class, I always had a field day posing various moral dilemmas to my poor, unsuspecting teacher.

Thou shall not steal. What if I stole a loaf of bread to feed my starving children? *Thou shall not kill.* What if it was done in self-defense or to protect an innocent person? Of course, my questions were impossible to answer because the problem with morals is their lack of flexibility and inability to consider the context of a situation. You don't ask questions; you just follow them—which was the typical response from my teachers.

Recently, I wrote an investment proposal for an institutional client. To prepare for my proposal, I had to review the organization's investment policy statement, which called for an allocation of 50% stocks, 40% bonds, and 10% cash. Rather than contemplate how I would approach investing their assets, I found myself asking why the organization had to invest according to the same allocation at all times. *Thou shall invest half of thy portfolio in stocks.* What if the stock market was ridiculously overvalued? *Thou shall invest 40% of thy portfolio in bonds.* What if rising interest rates loomed? *Thou shall maintain a 10% cash allocation.* What if cash yielded 0%?

As strange as it may seem, this organization's investment policy is not out of the ordinary. While the ratio is not always 50/40/10, asset allocations like these are commonplace in our industry and not just with institutional accounts. If you own a "balanced" mutual fund, you are likely being bound by a rigid asset allocation. From the prospectus of the Fidelity Balanced Fund: "(The fund invests) approximately 60% of assets in stocks and other equity securities and the remainder in bonds and other debt securities." If you make a practice of rebalancing your portfolio periodically to keep in line with a "target" allocation, your asset allocation is just as rigid. If you own a "target date retirement" fund, your asset allocation changes as you age but still fails to respond to market conditions.

Asset allocations are the product of crunching historical investment return data to determine the appropriate mix of assets for your specific return needs and risk profile. Need a 7.5% annual return with about half of the stock market's volatility to meet your retirement goal while allowing you to sleep at night? There's an app for that. It's called a portfolio optimizer, and it would tell you that a portfolio of 50% large-cap stocks and 50% intermediate government bonds would meet your risk and return requirements.

But, while the optimizer is capable of spitting out the "right" allocation for your goals, it is typically based on large sets of *historical* data (since 1926 in my example), which means it fails to take context into consideration. Data since 1926 assumes a 9.6% return on large cap stocks and a 5.4% return on intermediate government bonds, both of which are elevated given current market conditions. We project that large-cap stocks will produce gains of 7% to 8% over the next ten years—a respectable return but significantly less than the 9.6% average annual return over the last 80+ years. Intermediate government bonds are easy to project because they require no projection. The yield on the 10-year U.S. Treasury bond stands at less than 4% currently, a far cry from the 5.4% historical return. So, in what appears to be a low return environment relative to history, does it make sense to rely on asset allocations that are based on returns from headier times?

So far, I have kept my example simple by assuming a two-asset portfolio comprised of stocks and bonds. However, cash is certainly a part of everyone's asset allocation. Cash may have once been king, but now it is more like the emperor with no clothes now that it yields less than 1%. It is still important to have cash to serve as your emergency fund, but your allocation to cash needs to be put into the context of your personal investment plan. Having too much cash may make you feel secure, but it will negatively affect your investment return. With a long-term return of just 3.7%, cash has always been a drag on returns but never to the extent it is today with sub-1% yields.

Regardless of the sad state of the cash markets currently, target date retirement funds like the Fidelity Freedom 2005 Fund continue to ramp up their cash exposure. The Fidelity fund is designed for investors who retired in 2005. Despite the fact that these investors are just five years into their retirement plan and despite the low yields on cash, this fund has 15% allocated to "short-term funds"—half of which is invested in a Fidelity money market yielding 0.24% with the other half invested in the Fidelity Short-term Bond Fund, which yields 1.7%. And per the fund's investment objective, the cash allocation will continue to gradually increase until it reaches 40% in 5 to 10 years! Given today's longer life expectancies, few retirees are in a position to live off of a portfolio in which nearly half of their assets yield less than 1%.

Morals fail as a reliable code of conduct because of their inability to adapt to various situations. Unfortunately for many investors, their investment plans may too fail in the coming years because their asset allocation refuses to adapt to the unique market conditions that exist today and are likely to persist into the near future. If you want to make certain that your asset allocation is in line with your goals, please contact us. ■

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Account Performance Report Through March 31, 2010

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:

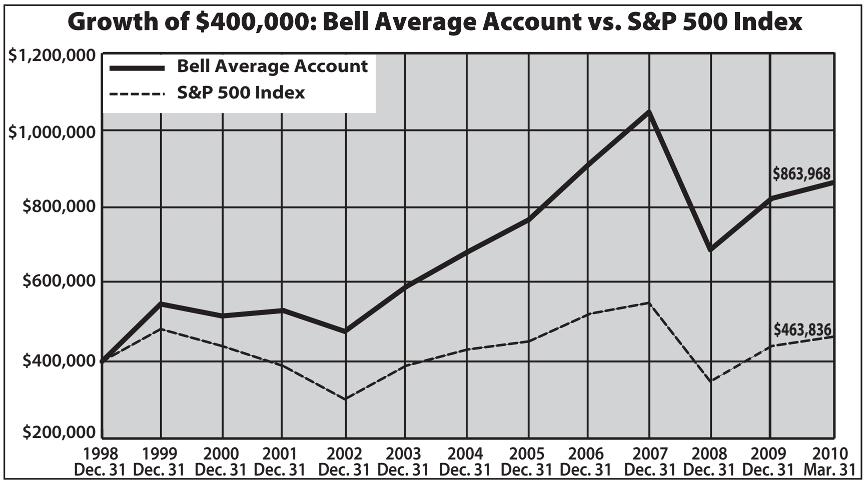
Matthew P. King, CFA

	2010	January 1999 to March 2010	
Index	Year-to-Date	Total Return	Annualized Return
Bell Average Account (1)	4.9%	116.0%	7.1%
Bell Median Account (1)	4.9%	114.1%	7.0%
Dow Jones Industrial Average (2)	4.8%	51.7%	3.8%
S&P 500 Index (2)	5.4%	16.0%	1.3%
Nasdaq Composite (2)	5.7%	9.4%	0.8%
Russell 2000 Small Cap Index (2)	8.9%	86.4%	5.7%
MSCI EAFE Index (2)	0.9%	50.3%	3.7%

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 approximately $915 billion indexed to it—gained just 1% per year since the start of 1999.

Meanwhile, our Active Portfolio Enhancement® methodology has more than doubled our clients' assets 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.



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. ■

What About the Value of Your Less Tangible Assets?

by Bonnie Bell, Career & Life Coach

Most people have heard by now about how important it is for them to *find their passion*, *work with passion*, and *live with passion.* Jim talks about it in his article in this very issue of the *Opening Bell.*

The problem is that many people honestly don't know what their passions are, much less how to find them or turn them into paid work. Others just don't relate to the concept or word—it's too intense, over-the-top, or somehow inconsistent with the rest of who they are. Visions of Van Gogh cutting off his ear for love or killing himself for his art come to mind…

Several years ago, I worked as a coach with a young woman we'll call Tam. Tam was bright, attractive, well-educated, and soft-spoken. She was very disappointed and dissatisfied with her career in accounting. She had pleased her parents with this choice, but had made herself miserable. She definitely wanted a different career path, but she had no idea what it would be. She was not a passionate kind of person, she said. She had no passions, in fact, so how could she possibly find her way to a career she would be passionate about?

When I asked her to tell me what the word "passionate" meant to her, she quickly responded that if you were passionate about a cause, a talent, or a person, you would be willing to die for it. She was quite sure there was nothing inside or outside herself that she felt that way about; therefore, in her mind, she was defective. She had no passions.

I suggested that we consciously put on hold the whole question of passion and career change while we took some time to follow the breadcrumbs—the more subtle clues that might point the way to a different and more satisfying direction.

To do this, we had to come up with language with which she was comfortable. Instead of exploring *Loves, Hates, Deep Desires and Primary Values,* we considered *Likes, Dislikes, Attractions and Enjoyment.* This worked; she could relate. She became more comfortable and engaged in the process. She started perking up.

Next we worked on the *Inventory of Personal and Professional Assets*. These include your gifts, talents, education, training, experience, skills, accomplishments and personality traits. They invariably add up to something more valuable than the sum of the parts.

Once people can actually observe and acknowledge their accomplishments in print, they begin to get a grounded sense of who they are, what they want to spend their time doing, and they develop a grounded sense of the value they bring to the marketplace. Clarity begins to emerge, and *clarity* is power.

What began to make a lot of sense to Tam as we sidestepped the concept of passion and took a serious look at what the breadcrumbs were telling us, was—hold on to your hats!—becoming a physical therapist. Say what?

It's not just that the idea of a career in the medical field was subtle, it's that it wasn't even part of the conversation at all. It sort of jumped out one day in the midst of our inquiry as an "Oh, and by the way, I just remembered something that might be important. The thing I love to do more than anything is read about health, exercise, and nutrition. I know quite a bit about it. My friends call me Dr. Tam and are always asking for my advice… ."

Suddenly everything came to a halt, and nothing was left but a pulsing silence. We stared at each other. We were thinking the same thing at the same time: woops, did we just stumble into a *passion*? We both burst out laughing. There was the answer, and the answer was pure delight.

Would she cut off an ear for it? Would she die for it? Probably not. But did she apply herself to it fully? Yes. Did she bring her gifts, talents, intelligence, education and accomplishments, interest and stills to it? Yes. Does she enjoy what she is doing every day? Yes. Is she making a good living and having a good life? Yes.

Are you paying as much attention to the value of your own personal and professional assets as you are to your financial assets? ■

Bonnie Bell, MA, M.Div.

Financial Planning as a Career Asset

by Jim Bell, CFP®

Lately, I have been meeting one-on-one, in my office, with college students. In many cases, they are the children or grandchildren of my investment management clients. I am very proud that we work with multiple generations for several of our client families. We know and take care of grandparents, parents, children, and grandchildren. We can't be passive. There are just too many bad stories "out there" about how the second and third generations lose the money the first generations accumulated.

How Did I Get Here?

The students I meet are beginning to wonder about their careers after college and this is what they all ask: *How did you get here?*

So this is my story. Thirty years ago I finished graduate school and was working full-time as a computer operations supervisor on the U.C. Berkeley campus. I no longer had to go to classes, write papers or prepare for exams so, for the first time, I purchased season tickets to the American Con-

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servatory Theatre (ACT) in San Francisco and the Oakland Symphony. There were many nights on the town, and I soon realized that I was living beyond my means. I had never done a personal budget before, but I knew that I could get a handle on my spending problem sooner if I hired a professional.

James F. Bell, CFP®

I Got Professional Help

I think that one of the questions behind the question *How did you get here?* is *How did you find your way to success?* I have no doubt that one of the chief qualities that has made me successful is my willingness to find and pay for competent professional help. My very positive experience of working effectively with a financial planner to design a prudent, sustainable, and enjoyable spending plan opened my eyes to a career I could enjoy.

I think that career choices are often made from the positive experiences we have in the marketplace or in life. These could be experiences we have with teachers, doctors, nurses, lawyers, ministers, or our experience of something like architecture.

As a computer operations supervisor I worked 12-hour shifts usually three days per week. Because I was always off on Thursdays, Fridays, and Saturdays, my financial planner suggested that I could pay off my debts sooner if I found a part-time job on Thursdays and Fridays; she even had a referral for me. She knew a stock broker at Dean Witter Reynolds who was looking for someone to tutor him on computer technology and data processing. Believe it or not, this was before personal computers were on the market! The stock broker and I hit it off, and I discovered that I not only enjoyed learning about and working with other people about financial matters, but I was good at it. Within two years, I was fully licensed and began working full-time as a junior investment advisor, which then led me into a life of continuing financial and business education that persists to this day.

My willingness to seek and find competent professional help has always yielded more than I could have expected. Little did I know that when I sought the services of a financial planner to help me with a budget that I would find not only a mentor but a satisfying career. This leverage has repeated itself many times in my life. I know I need help. I am willing to pay for it. I am a good student, and people help me way beyond our initial engagement. While it may not seem like a principle of building power, I have found it to be so. It is something college students and adults need to practice.

Career as Your Chief Financial Asset

I have no idea if any of the college students I meet with will choose a career in finance or financial planning, but I do know that financial planning can help to optimize what your career can produce to take care of your concerns now and in the future. Financial planning at its best causes you to keep asking, "For the sake of what am I working, saving, and investing?" There is no greater force for success than working in a career with passion, clarity, and focus. Finding out what that is for you and developing the skills to support it is a journey well worth taking. ■

Bell Investment Advisors is pleased to announce two new members of our firm:

- **John R. Tregenza,** Director of Client Development
- **Laurent Harrison**, Relationship Manager

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