BELL INVESTMENT ADVISORS
MOMENTUM FOR LIFE®

The Opening Bell

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You Invest to Win the Game

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

Whether he gets another gig as an NFL coach or not, former New York Jets head coach, Herm Edwards, is immortalized thanks to a beer commercial that runs routinely during football season. The television ad uses footage from a real press conference that occurred during the 2002 season, a few days after the Jets lost to the Cleveland Browns to bring their record to 2-5. After being questioned by a reporter about the team's motivation to play the upcoming week's game given their poor start to the season, Coach Edwards condescendingly responded, "You play to win the game...HELLO?...You don't play to just play it."

As a financial advisor, I must admit that in moments of frustration I feel like paraphrasing Coach Edwards by telling clients, "You invest to win the game." Although being a mild-mannered financial advisor instead of a quick-tempered football coach, it would definitely come out in a less derisive tone. The point of investing is about achieving your goals; in essence, you want your investments to help you win the game of life—to produce a good life, whatever that concept means to you. But that simple idea is based on a long-term time horizon, so it often loses out to myopia.

"Winning" in the Short-Term at the Expense of the Long-Term

Investors often get caught up in trying to "beat the market," and that is fine to an extent. As with the concept of par in golf, it's important to have a benchmark to know how you are doing. Or if you buy mutual funds or work with a wealth management firm, you obviously need some measure of comparison to gauge how your managers are faring with your money. For professional advisors, the frustration sets in when investors become obsessed with "winning" in the short-term at the expense of the long-term.

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To illustrate my point, consider two mutual funds—the Legg Mason Value Trust Fund (LMVTX) and the Alger Spectra Fund (SPECX). From 1983 to 2010, the Legg Mason Value Trust Fund outperformed the S&P 500 Index in 20 of 28 years, including a 15-year streak of outperformance from 1991 to 2005. That's a "winning" percentage of 71.4%, a record Coach Edwards would envy. Meanwhile, during the same period, the Alger Spectra Fund outperformed the S&P 500 Index in just 13 of 28 years, a "winning" percentage of 46.4%.

From this overly simplistic analysis, it would appear that Legg Mason is the superior fund, having beaten the market more often than Alger. Of course, calendar years are quite arbitrary in the sense that they represent random points in time that do not coincide with the time horizon that encompasses your financial goals. It may feel great to "win" in nearly three out of every four years, but that has little bearing on the success of your long-term financial goals.

While the Legg Mason Value Trust Fund was quite successful at beating the market on a yearly basis, it may come as a surprise that it actually lagged the market over this 28-year period. From 1983 to 2010, the fund gained 1,665.3% compared to 1,733.4% for the S&P 500 Index. Perhaps even more surprisingly, despite outperforming the market

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Account Performance Report through March 31, 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:

	1Q 2011	January 1999 to March 2011	
Index	**Total Return**	**Total Return**	**Annualized Return**
Bell Average Account (1)	5.4%	146.9%	7.7%
S&P 500 Index (2)	5.9%	34.1%	2.4%

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 2.4% per year.

Meanwhile, our Active Portfolio Enhancement® methodology has produced an annualized return of 7.7% 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. ■

You Invest to Win the Game

(continued)

in less than half the years, the Alger Spectra Fund trounced both the market and the Legg Mason fund by gaining 2,382.9% during this 28-year period. Despite this significant degree of outperformance, perhaps the most surprising fact in all of this is that while the Legg Mason Value Trust Fund oversees nearly $4 billion in investor assets the Alger Spectra Fund holds less than $1 billion, evidence that the marketplace values consistency of performance over performance itself.

Focus on Winning the Game, Not the Inning.

Football players don't obsess with winning the second quarter, and baseball players don't focus on winning the fourth inning. They play to win the game as should you as an investor. For investors, the "game" of life is typically a very long one. Finding investment strategies, funds, and managers that perform well over the long-term is the first key to winning. The second is to avoid the temptation to abandon ship if that strategy, fund, or manager underperforms for a brief period of time. Successful investing is not about consistency of performance; it's about long-term results that take time and patience to achieve.

In closing, it is worth mentioning that the last time the New York Jets won the Super Bowl was in the 1968 season, a team coached by Weeb Ewbank who won in his sixth year at the helm. Since his retirement in 1973, the Jets have had 14 head coaches in 37 years, which may be just one reason they haven't been back to the Super Bowl since. Or it could be *the* reason. ■

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Pension Promises: Hard to Keep?

by Jim Bell, CFP,® President and Founder

Every day I read headlines in print or online about pension plans all over the USA and the world that are underfunded. In the domain of retirement plans, the distinction of a pension is significant because it is a promise and a guarantee of a specific return or benefit. When a pension plan is underfunded it means the plan does not currently have enough money to fulfill its promise.

Some Promises are Hard to Keep

In the 1970's when I worked as a computer operations supervisor at the University of California, Berkeley, I remember earning a pension credit of 1.5% to 2.0% of my annual salary for every consecutive year I worked. If I had stayed at U.C. for 30 years, I may have earned a lifetime guarantee of 60% of the average annual salary from my three highest income years. It turns out I had bigger ideas. If I had retired from U.C. Berkeley, my pension would be in jeopardy right now because the plan has been badly managed.

One recent internal report to U.C. employees and faculty about the crisis in the pension plan estimated that without significant reductions in benefits promised, in just four years, the entire budget for the whole U.C. system would need to be allocated just to the current pension obligations. There would be no money to pay current faculty or employees or to maintain the buildings and lawns. You might ask how an institution with so many Nobel Laureates could be so badly managed. The answer is in Matt King's article in this issue of the newsletter: the long-term goals and promises lost out to short-term myopia.

Our World Needs More Grown-Ups

I often say that financial planning is an adult practice. Adulthood assumes a person has the capacity to think and act for the sake of present and future concerns. Bonnie and I first realized that our two children were maturing when they began remembering to bring home their jackets. They would leave for school in the morning cold all bundled up in their jackets, but when they returned in the afternoon heat, they tended to leave their jackets at school. This is totally understandable in elementary school, but what happens the next morning when it's cold again? As children mature they are able to realize that it might be hot now but it probably won't be in the morning. That's a sign they are gradually moving toward adulthood.

I often say that financial planning is an adult practice.

– Jim Bell, CFP®

The chief actuary for the California Public Employees' Retirement System (CALPERS) recently recommended lowering the assumed rate of return for the fund from 7.75% to 7.50%. If this had passed, it would have required local governments covered by the plan to contribute more money now so that the underfunded status of the plan would move in the direction of full funding. The actuary was acting as a mature adult. Unfortunately, the local government officials responded, "We cannot afford this." Subsequently, the trustees decided in favor of the local government officials. Myopia—in this case, present concern over future concern—wins again. Wilshire and Associates, an investment consulting firm, projects that public pension funds will earn only 6.5% annually for the foreseeable future.

How to Keep a Promise

Back in 2007, Bell Investment Advisors started a Cash Balance Pension Plan for all of our employees. This type of plan falls under the category of Defined Benefit because it involves a promise and guarantee for our employees. All employees covered by this plan will earn long-term U.S. Treasury yields which are adjusted every year and now sit around 4%. Because we are confident about our long-term momentum growth strategy, we invested the Bell pension plan mostly in stock mutual funds, and in spite of the 2008 downturn, our strategy has been so effective that our pension plan is now overfunded.

We have kept our promise to our employees because our strategy has been successful and because we chose to base our rate of return on easily-achievable Treasury yields. Joshua Rauh, finance professor at Northwestern, recommends that all public pension funds base their return rate on Treasury yields. Unfortunately, the adults are not in charge and the prevailing strategy seems to be, "Maybe we'll get lucky." ■

In the tradition of community partnership between business and the arts,

- Bell Investment Advisors is the proud sponsor of the American Masterworks Series of the **Oakland East Bay Symphony**. This year's concert, to be held on Friday, May 13, 2011, at the historic Paramount Theatre in downtown Oakland, features the American Masterwork, *Street Scenes*, by Langston Hughes, music by Kurt Weil. For more information and for tickets: oebs.org.
- Bell Investment Advisors is also pleased to sponsor the 2010-2011 season of the **Piedmont East Bay Children's Choir**. Next concert: Spring Sing on May 21. You won't believe how innovative and inspirational this concert is! You'll never forget it. (piedmontchoirs.org)

Investing "To Win" A Good Life

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

When, on a whim, I looked up the verb **to invest** the other day, I found myself going down an unexpected path of words, word derivations and definitions that shed more light on the definition most of us know already: ***to commit money in order to earn a financial return.***

But I'll bet you didn't know that **invest** is closely related to the Latin **investire**, which means ***to clothe***. Or to **vestment, *an ecclesiastical robe or covering***. Or to **to vest**, which means ***to grant or endow with a particular right**, e.g., **a right to pension benefits after a certain period of employment.*** That's pretty interesting.

Continuing along the word path, **to vest** led me to the verb **to endow**, which led me to **endowment,** and from **endowment** to **dowry**. That was a surprise. There were more, but you get my drift. Most of them have to do with humans worrying about or planning for the future—quite literally about "being clothed" in the future.

It occurs to me that thinking about investing as only having to do with dollars and cents is in itself short-sighted. What about investing in good health habits to create a positive health trajectory for the future? What about investing in lifelong education to remain competitive in the job market? What about investing quality time with your family and friends to create a loving support system in the future? What about getting help from a counselor or coach to move you through a bad situation?

"I don't have time" or "maybe tomorrow" or "I can't afford it" are common, but not-always-wise, answers to these investment matters. But think about this: a good life doesn't happen all by itself. It requires our active management, wise decisions, and making good investments—of all kinds—for the future. ■

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>
> – Bonnie Bell, Principal

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

UPCOMING EVENTS

Webinar:
"Building Momentum Through Financial Planning"
April 20, 2–2:30 pm PDT

Lunch Meeting:
"Making a Good Life Happen"
April 27, noon–1:30 pm

Client Webinar: (clients only)
"Investment Committee Update"
May 25, 2–2:30 pm PDT

Webinar:
"Planning Your Estate: Common Sense Solutions for the Tax-Free Zone"
June 22, 2–2:30 pm PDT

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