BELL INVESTMENT ADVISORS
MOMENTUM FOR LIFE®

The Opening Bell

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Great (Inflation) Expectations

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

For those of you who have met me or have read my articles before, you know that I am a sports fan and that my loyalties lie with the San Francisco Giants and 49ers. With my teams finishing on opposite ends of the spectrum, 2010 proved to be an up and down year emotionally, but in the end, I learned a very valuable lesson. Expectations matter.

Nobody, including me, thought that the Giants would make the playoffs this year let alone win the World Series, their first since their arrival in San Francisco in 1958. Even when an unexpected series victory over the Atlanta Braves in the first round of the playoffs set them up against the heavily-favored Philadelphia Phillies in the National League Championship Series, I said to myself, "Even if they lose, it has been a memorable season." While a World Series victory for your favorite team always elicits feelings of unbridled joy, it feels especially sweet when you never saw it coming. Sorry, Yankees fans, but it's the truth.

While the Giants were making their push towards the playoffs in early September, the NFL season was gearing up, and many experts were picking the 49ers to win their division and make the playoffs for the first time since 2002. Unfortunately, I bought into the hype and expected a winning season. Sixteen games later and the Niners were going home after finishing the regular season 6-10. The season proved especially frustrating because my expectations were so high.

To help moderate my emotions going forward, my plan is to enter every new season with low expectations. If my team does well, then my elation will be heightened. If they don't, then my disappointment will be tempered. Seems like a win-win to me.

Quantitative Easing . . . the Sequel

On November 3, 2010, the Federal Reserve embarked on a second round of "Quantitative Easing," an economically euphemistic way of saying that they would

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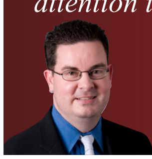
> – Matthew P. King, CFA



print money to buy longer-term bonds to keep interest rates low to help stimulate the economy. They already implemented such a plan once, between November 2008 and March 2010 when they focused their attention on mortgage bonds to drive rates down to help support an ailing housing market. Their plan worked. During the program, mortgage rates fell and the benchmark 10-year Treasury yield remained relatively range-bound. It seems that their success along with the stubbornly high unemployment rate played a role in their decision to launch the second phase, dubbed "QE II" by the financial media.

As for QE II, so far not so good. Despite the Fed buying hundreds of billions of dollars of longer-term bonds (this time the focus is on Treasuries), both the 10-year Treasury yield and mortgage rates have started to climb. As a result of rising yields, the bond market has fallen 2.3% since the start of November, as bond prices move inversely to interest rates.

Interest Rates are Rising Because of QEII Not Despite It

Die-hard sports fans are not the only ones who need to pay close attention to expectations. Bernanke and his colleagues at the Fed need to as well. While QE II is the same as QE I in terms of procedure and strategy (aside from the focus shifting from mortgages to Treasuries), the economic environment has changed from one of recession and deflation then to one of mild expansion and inflation now. As a result, bond investors' expectations of inflation are increasing,

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MORE COVERAGE INSIDE

Account Performance Report through December 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:

	2010	January 1999 to December 2010	
Index	**Total Return**	**Total Return**	**Annualized Return**
Bell Average Account (1)	13.9%	134.4%	7.4%
S&P 500 Index (2)	15.1%	26.6%	2.0%

This table compares our average account performance compared to the S&P 500 Index. With approximately $915 billion indexed to it, the S&P 500 has come up well short of expectations since the start of 1999, producing a return of just 2% per year.

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.

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.

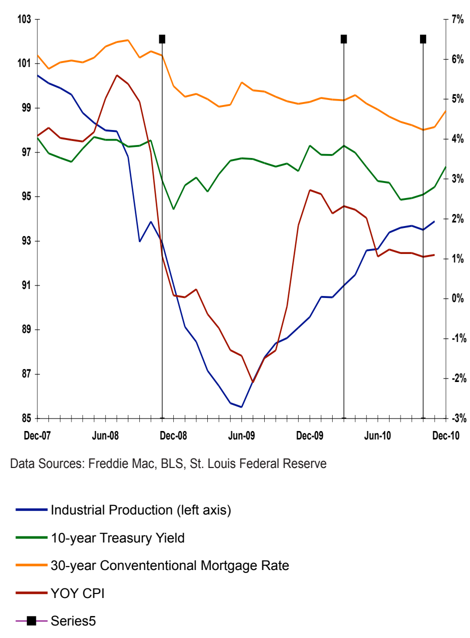
The S&P 500 Index is an unmanaged, market-cap weighted index of large-cap stocks commonly used to represent the U.S. stock market. More information can be found at www.standardandpoors.com. Neither the Bell Average Account nor the S&P 500 Index can be invested in directly. The composition and volatility of Bell's client accounts vary and may significantly deviate from the S&P 500 Index over time. ■

Great (Inflation) Expectations

(continued)

forcing them to demand a higher rate of interest as compensation. The Fed's desire to throw more monetary stimulus at an improving economy only serves to heighten those expectations for inflation and the demand for higher rates.

The Fed is authorized to use up to $600 billion in newly-created money to buy bonds as part of QE II. They have been making purchases since November and plan to continue through June. While the $600 billion in bond purchases will take place over an eight month period, the average *daily* volume of the U.S. bond market was about $900 billion in 2010, which should serve as a reminder to the Fed exactly whose expectations matter in setting long-term interest rates. For bond investors, this means being wary of rising rates—despite the presence of the Fed in the marketplace—by staying short to intermediate on the yield curve and overweighting spread product relative to Treasuries. ■



Data Sources: Freddie Mac, BLS, St. Louis Federal Reserve

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Expectations for a Good Life

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

With the new year just a few days old, the atmosphere is thick with upbeat greetings and optimistic resolve. This ritual is so ingrained in us, we can't help ourselves. It's what we humans do each year in our endless failed attempts to be gods instead.

By January 5 or 6, jokes were swirling around the water cooler about how long it took to break this or that resolution—with a cookie, a drink, or a missed morning run. By the end of the week, we were laughing at ourselves and moving on. Nothing gained or lost except a pound or two, but underneath it all, something very big may have been missed: the genuine, equally human, will to transcend the norm and have an exceptionally good life.

New Year's resolutions are inevitable—they will continue to exist indefinitely as part of the new year ritual, but they are rigged to fail for at least two reasons I can think of off the top of my head:

1. They are high-concept, e.g., "I will never eat a fattening thing again, and I will be thin once and for all." No philosophy, strategy, tactics, or plan.

   and/or

2. They tend to be based on a false or shallow premise, e.g., "I am going to get a good-paying job so I can earn more money, buy more things, and be happier."

I want to have a different conversation—a deeper, broader, more meaningful conversation—one that does not dry up in a few days or weeks. This conversation has everything to do with the quality of your life and work, day after day, all year long and well into the future. How about resolving this year to enter *that* conversation? How about resolving to have a good life and developing strategies and tactics to make that happen?

As a Career and Life Coach for over 22 years now, I have largely facilitated these kinds of conversations behind closed doors, one person at a time. They are full, deep, rich, serious, fun, funny, challenging, and profound conversations about life and work. They most often lead to clear, practical decisions and positive change. A brilliant teacher decides to marry, train teachers, and write books. An attorney leaves his large firm to start a small one of his own. A public relations professional becomes a storyteller, playwright, and actress at age 60. Most people get on the right track and move forward.

> *How about resolving to have a good life and developing strategies and tactics to make that happen?.*
>
> – Bonnie Bell, Principal

How to make that deeper conversation public? Let me count the ways: conduct workshops, do public speaking, pen a column, teach a class, write a book (all of which I am doing or about to do). But in the age of cyberspace, there's another, more immediately accessible way—launch an interactive blog! (Don't knock it if you haven't tried it….)

By the time you read this, I will have launched mine. It's called *Making a Good Life Happen*. Please join me at careerlifecoaching.bellinvest.com, and enter into the conversation you really want to have about your life and work. We'll deal with powerful strategies and effective tactics, including The Resume, where confusion reigns. ■

UPCOMING EVENTS

Webinar (online):
"Asia in the Next Decade"
January 19, 2–2:30 pm PDT

Seminar & Reception:
"Asia in the Next Decade"
January 19, 5:30–8 pm PDT

Lunch Meeting:
"Making a Good Life Happen"
January 26, noon–1:30 pm PDT

Workshop:
"Making a Good Life Happen"
February 19, 10 am–3 pm PDT

Client Webinar:
"Investment Committee Update"
February 23, 2–2:30 pm PDT
(clients only)

Lunch & Learn:
"Building Momentum Through Financial Planning"
February 24, noon–1:30 pm

Webinar (online):
"Investing in Gold"
March 23, 2–2:30 pm PDT

REGISTER FOR THE WEBINARS:
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510.433.1066 or info@bellinvest.com

Did You Know . . .

- In 2010, 55% of our new clients came to us through referrals from our existing clients. Thank you!
- Bell Investment Advisors is the 2010–11 season sponsor of the outstanding Piedmont East Bay Children's Choir (piedmontchoirs.org).
- Bonnie Bell's Career & Life Coaching blog is now online. Join the discussion here: careerlifecoaching.bellinvest.com.

Bell Investment Advisors

- Investment Management
- Financial Planning
- Career & Life Coaching

While each of our offers stands alone, we believe that when people take advantage of all three, they maximize the possibility of building positive momentum for life.

Wine Expectations

by Jim Bell, CFP,® President and Founder

Recently, I had the pleasure of participating in two winemaker dinners in San Francisco. The first featured Greg La Follette, a Pinot Noir expert and founder of Tandem Winery. The second featured Peter Gibson, the editor and publisher of *The Wine Review Online***.**

Effects of Region and Elevation on Taste

I am not a wine expert by any means. I would say I am more of an *innocent.* I am intrigued with the complexity, creativity, and risk dimensions of winemaking as brought forth by Mr. La Follette. We tasted a variety of Pinots he had produced from vineyards in very different regions and elevations within Sonoma County itself. One was from the coldest and most western ridge which, it turns out, is colder than any vineyard in Oregon! I was surprised by the varied tasting experiences these Pinots provided depending on the location of the vineyard.

The Experience in the Mouth

One guest at the dinner asked Greg what the alcohol content was in a particular Pinot, a question that seemed to reflect a current attitude in the marketplace that more alcohol content is better than less. I loved Greg's surprising answer. He said he, in fact, did not care what the alcohol content was. "I never focus on alcohol content; I focus on the experience in the mouth."

When Greg said that, I leaned over to the new table acquaintance sitting to my left, who had earlier asked about our momentum-based investment strategy at Bell Investment Advisors. I told him that our investment strategy is a lot like Greg's winemaking strategy. "We believe in following performance without prejudice. We connect with what is working in the market and avoid what is not. We are focused on creating positive momentum in our clients' portfolios to help them achieve their goals—the experience—they are after." He got the parallel.

Old World vs. New World Winemaking

At the second dinner, during which Peter Gibson spoke, the theme was Old World vs. New World winemaking. He spoke about how the history of winemaking demonstrates the consequences of decisions and results over time, both positive and negative. To create fine wine, winemakers have to continually pay attention to what is working and what is not, to both tradition and innovation.

We believe in following performance without prejudice. We connect with what is working in the market and avoid what is not. . .

– Jim Bell, CFP®

Tradition can sometimes get in the way of innovation. In his opinion, at the present time, Europe is holding the flag of tradition which seems to be shutting down creativity and innovation. Did you know that it is against the law to irrigate vineyards in France? France insists that the winemaking experience, to be fair, should depend on the mercy of nature, rain or shine. Different regions, such as Burgundy, are entirely reserved for the growing of Burgundy grapes, with a very few traditional derivations.

This caused me to appreciate creative thinkers like Greg La Follette growing his Pinots in different locations and elevations, with stellar results. It made me think of how often the same dynamic, tradition vs. innovation, plays out in other industries, including investment management. An example can be found in the seeming polarity between traditional methods of portfolio design, such as, fixed percentage-based asset allocation, and more innovative performance-based strategies.

The Value of a Long Hang Time

There was one more analogy here. I learned that a long hang time is good for grapes and good for wine. The long hang time for grapes gives the environment time to nurture and fill the grapes with the extensive complexity of the soil and the region.

A long hang time works best for investments too. ■

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