BELL INVESTMENT ADVISORS
MOMENTUM FOR LIFE®

The Opening Bell

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Bye Bye Corporate American Pie

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

With my oldest child starting kindergarten in the fall, I am beginning to get nervous about being called upon to help him with his homework in a few years. I should be fine for the near future, as I have my ABC's and 123's down cold, but when he starts getting into geometry and chemistry, I may be in trouble as I have certainly forgotten more than I remember. However, I am supremely confident that when he reaches the junior high science lab, I will be able to rattle off the definition of osmosis like I learned it yesterday. It's quite strange, but for some reason, I can recite verbatim the definition of osmosis–the diffusion of water through a semi-permeable membrane–despite learning it over 20 years ago. Even more bizarre, I'm not the only one, as the friends I stay in touch with from that class possess the same ability. Osmosis owes you one, Mrs. Firpo.

Capital vs. Labor

Fortunately, for the sake of my employment and our clients' assets, I retained significantly more knowledge from my economics classes. One of the key lessons that was beaten into my brain by various professors is the fact that corporate profit margins are mean reverting (i.e. the tendency of data to return to its long-term average) because of the constant competition between capital and labor for their respective share of the profits. As profit margins increase, workers demand a bigger slice of the profit pie, and as margins decrease, owners cut labor costs to drive them back up.

I am not the only investment professional who recalls this particular lesson. Corporate earnings have been recovering from the last recession since the second quarter of 2009, and the recovery has been a swift one, as the S&P 500 Index should set an

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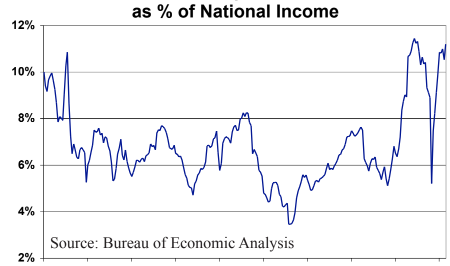
>
> – Matthew P. King, CFA

all-time high in earnings per share with the conclusion of second quarter 2011 earnings reports. Yet over the past two years, many investment professionals have been questioning the sustainability of the earnings recovery due to the fact that profit margins are approaching the high end of

After-Tax Corporate Profits as % of National Income



their historical range. If what we have been taught holds true, the margins should follow their mean-reverting tendency and decline over time, thereby lowering corporate profits as well.

Corporate Profit Margins

Going back to 1947, you can see that corporate profit margins float inbetween a range of about 3.5% to 11%, supporting the theory that they are mean reverting. The current level (as of March 2011) is 11.2%, suggesting that we are indeed nearing the top end of the historical range. However, it is worth focusing on the right side of the chart from about 1986, when margins bottomed at 3.5%, to the present day. As you can see, the trend in profit margins since then is clearly up. Many economists would argue that this is due to the increased leverage in the economy since that time, and that fact is certainly true and definitely a factor. And while the economy is unlikely to continue to accumulate debt at the same rate as it has over the past twenty-five years, there are other factors that support the idea of sustainably higher profit margins.

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MORE COVERAGE INSIDE

Account Performance Report Through June 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 June 2011	
Index	**Total Return**	**Total Return**	**Annualized Return**
Bell Average Account (1)	3.5%	142.5%	7.3%
S&P 500 Index (2)	6.0%	34.2%	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 7.3% 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.

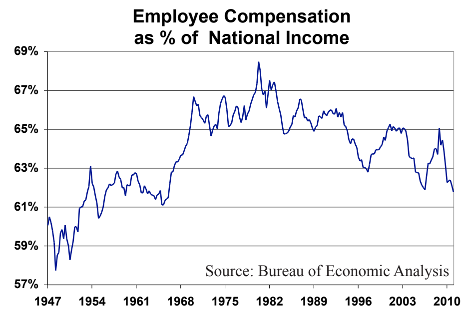
In regard to the Bell Average Account, the term "average" is defined as a simple average—not a weighted average. Only fee-paying clients who fully employ our Active Portfolio Enhancement strategy are included in the return calculation. Client accounts that hold individual securities or funds not recommended 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. 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. ■

Bye Bye Corporate American Pie

(continued)

First, technology has undeniably improved by leaps and bounds over the past twenty-five years, which has led to tremendous gains in business productivity and less demand for labor. Second, labor is less powerful than it used to be and consequently has less sway over ownership. According to the Bureau of Labor Statistics, there were actually three million *fewer* union members in the U.S. in 2010 than in 1983 despite the fact that the number of non-farm workers has *increased* by over 40 million since then. And lastly, there is the effect of increased globalization in recent years, which has allowed U.S. companies to outsource production to countries with cheaper labor forces. As the adjacent chart clearly shows, the result of all of this has been a declining share of the profit pie for U.S. workers since 1980.



Whether this trend of elevated profit margins and shrinking employee compensation rates is fleeting or sustainable remains to be seen, but there is sufficient evidence to suggest we may have entered a new paradigm for corporate profitability sometime in the last 25 years. Perhaps we will be able to settle this issue when they (re)write the economics textbooks my son will use in college, but for now, our bet is on equities and continued corporate earnings growth. ■

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Check out Bonnie's blog: careerlifecoaching.bellinvest.com

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Re-creation: A Better Way to Think About Retirement

by Jim Bell, CFP,® President and Founder

I was eleven years old when I first realized that the word *recreation* was rooted in the word and concept of *creation*. At that age, my grammar school became the Recreation Center where I spent my summers playing caroms in the southern California heat. Before that revelation, I thought words were just things to be memorized. I liked it when I learned that I could take words apart and study their origins, history, and associations.

The Negative Associations of Retirement

The word *retirement* has a litany of negative associations: withdraw from use, retreat, go away, recede, avoid decisive combat, become unwanted, put away, fall back. Who would aspire to achieve the status of being unwanted? We all could use a new way to think about retirement, and I was happy when I remembered my revelation about recreation so many years ago.

The Positive Associations of Recreation

Recreation has several positive associations: to form anew, to reform in the mind, to renew, to enliven, to give fresh life. All of the stages of life are about re-creation, when you stop to think about it. When babies cut their teeth, they recreate themselves: now they can take a bite out of the world. When they finally learn to walk, they begin relishing their independence.

I enjoyed this past Fourth of July with my two-and-a-half year-old grandnephew, Denny. At one point he was hungrily chomping on a chicken quesadilla poolside, when he suddenly jumped up, threw it down, and shouted, "It is time to go!" as he took off running. It is a good thing his father was a former state champion track star!

When our granddaughter Sofia proudly announced to us that she was *diaper-free* as she approached age four, she began to recreate new opportunities for herself. She can now qualify for the Kub Koral at Lair of the Bear Family Camp, and play all day long, if she wants to, with her diaper-free comrades.

> *More and more we are helping our clients recreate themselves as they develop through the decades.*
> – Jim Bell, CFP®

The Recreation of Reggie Jackson

Thanks to my association with the Ann Martin Center in Oakland (which promotes healthy emotional development and effective learning skills of at-risk youth), I spent Memorial Day watching the Oakland A's play the Yankees from Reggie Jackson's luxury box, which he donated for the day as a fundraiser for the center. The $600 ticket price included cushy seats in a warm suite with plenty of food and drink, and the privilege of hanging out with Reggie for the afternoon.

I had heard Reggie speak at a business seminar several years ago and was impressed with his business acumen and knowledge of the complexities of high-level finance. Unlike many professional athletes who lose their money within three years of retirement, or lose their way via other means, this is a man who has grown into an extremely admirable person and business professional.

The Process of Keeping Young

Reggie has kept his association (and source of income) with baseball by recreating himself as a mentor, coach and confidant to young ballplayers in the Yankee organization. He comes alongside players who are in a slump and talks them through it. He keeps himself young with his world-class car collection (and business), and clearly recalls when, in his early teens, he was in love with the Chevrolet 409 and never thought he'd have the money to buy one. Now, not only is he in a position to fulfill his childhood dreams and maintain his involvement in baseball, he also helps lots of people and causes, and loves doing it.

Recreation is for the Living

More and more we are helping our clients recreate themselves as they develop through the decades – a lawyer becomes a consultant and educator, a nurse starts a children's choir and becomes a chorus master, a business owner becomes a business ambassador. Retirement is for the unwanted. Recreation is for the living. ■

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.

Check our our latest white paper, "BUSINESS SUCCESSION PLANNING: A Short Course" online now at bellinvest.com/resource-center/white-papers

UPCOMING EVENTS

WEBINAR
"Personal Umbrella Insurance: An Asset Preservation Tool"
July 27, 2–2:30 pm PDT

WEBINAR (CLIENTS ONLY)
"Investment Committee Update"
August 24, 2–2:30 pm PDT

WEBINAR
"Cash Reserves Strategy"
September 28, 2–2:30 pm PDT

LUNCH AND LEARN
"2011 Year-End Tax Planning"
September 30, noon–1:30 pm PDT

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Careering

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

We definitely need to update our thinking about retirement – I personally hate what the term has come to represent – but we also need to hit the refresh button about the word career. *Career*, I like to remind people, is not a noun; it's a verb. It requires our continual attention and management over a lifetime.

I say this over and over because it's true, and because most people actually do think their career is a noun, a thing they picked off a shelf of careers one day, and for that reason, it should work for them for the rest of their lives. Then they feel bad, as if they did something wrong, when it doesn't work anymore. Should this really come as a surprise? Don't we know that times change, we change, the marketplace changes, and – woops – the plot thickens?

Years ago, in preparation for a talk I was giving, curiosity led me, once again, to the dictionary for definitions of the word *career*. As I waded through the dense lines of small print, I was thrilled to discover there actually was a verb form of the word, albeit antiquated. *To career*, in the antiquated nautical sense, meant *swift movement of a vessel through water*. The example given was, *The ship is careering* (not careening, by the way) *through the ocean with ease and speed*; also, *The ship was in full career*.

Full career is the direction in which we should all be heading, and beyond that, to *full life*. Should we really be pained or shocked or depressed because we hit rough waters? Challenging weather conditions? There are always actions to be taken, moves to be made, and navigators to help.

A Handful of Evolving Clients

I am working with a particularly fabulous cluster of clients right now, all of whom are of different ages, in different stages, and facing different challenges, but all of them, I would say, are evolving, changing, and developing toward fuller, deeper, richer, and more satisfying careers and lives. That's why they sought me out, and that's the work we are doing together. Here is a handful:

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>
> – Bonnie Bell, Principal

1. A lovely young woman in her late 20's who has been in nursing for eight years and definitely wants out. It's just not what she wants to be doing for the rest of her life.

2. A brilliant 35-year-old scientist at a prestigious university in southern California who has put all of his time and energy into getting where he is, to the neglect of the rest of his life. Will he ever have fun again? Marry? Have children?

3. A highly exceptional, accomplished, 48-year-old teacher who has hit the wall with teaching. She has many gifts and talents and has reached what she sees as a *do or die* place in her life. If she doesn't at least implement one of her business ideas, she'll never forgive herself.

4. A 41-year-old mechanical engineer who has been working on a fascinating documentary film that *has legs*. She has been accepted for consideration by a foundation that funds similar projects, and we are doing interview preparation. She wants to move out of engineering and into her passion full time.

5. An attorney in her late 30's who is having a baby in the fall. She wants to use this major life change as an opportunity to evolve her career and is considering several possibilities. We are thinking through them together, gaining clarity as we go.

6. A 52-year-old executive sales professional who just landed the best job of his entire career! This is the third successful transition I've helped him with over the past 12 years. Each transition led to the next best step.

Through these compelling conversations and this work, I, too, am living my dreams. I guess you could say I am in *full career*. ■

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