BELL INVESTMENT ADVISORS
MOMENTUM FOR LIFE®

The Opening Bell

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A Greek Exit from the Eurozone & Rising Rates at Home: The Waiting is the Hardest Part

by Matt King, CFA, Chief Investment Officer, Managing Director

As I enjoyed the festivities over Fourth of July weekend, I could not help but notice that my eight-year-old son was not quite himself. I did not have to pull teeth to get it out of him: it was literally because he was having some teeth pulled the following week. "Preventive orthodontic treatment" is what they call it. Remove teeth now that may become problematic later in the hopes that this procedure will avoid — or at least limit — the need for future orthodontic treatment.

To an adult who has gone through the discomfort and the cost of years of braces on their teeth, this preemptive procedure makes sense — a little bit of pain now for a lot of pain saving later. But to a child, all that matters is the pain now part, as the benefits are impossible for him to comprehend and appreciate. As the date was growing closer, so too was his anxiety. As the music continued to play at the picnic, Tom Petty summed it up best, "The Waiting is the Hardest Part."

Over the last few years, investors have also been dealing with the difficulty of waiting for inevitable — or at least seemingly inevitable — events to occur. The possibility of Greece exiting the Eurozone has weighed on the minds of investors for over five years now. A shift in Federal Reserve policy has been a prominent investor concern since the U.S. economy and stock market started their respective recoveries in 2009.

While Greece may or may not leave the Eurozone, the Federal Reserve will certainly increase interest rates at some point in the future. Regardless of the timing of these eventualities, like my son and his oral surgery, we believe that the waiting will prove to be the hardest part.

Greece: More Drama than Tragedy

While the uncertainty is enough to spook investors in the short-term, the long-term damage of an exit by Greece from the Eurozone would likely be limited outside of Greece's borders. Their economic footprint is small globally — 0.3% as of 2014, according to the International Monetary Fund, the same percentage as Iraq, Algeria, and Kazakhstan. Even within Europe, only Cyprus, Macedonia, and Malta send more than 2% of their total exports to Greece according to Oxford Economics.

> ***. . . the long-term damage of an exit by Greece from the Eurozone would likely be limited outside of Greece's borders.***
> — Matt King, CFA

European banks have much less exposure to Greek debt than they did in the past. Standard & Poor's estimates that European banks have cut their exposure by 76% from €175 billion at the peak in 2008 to €42 billion currently. Banks in the United Kingdom and Germany are the most exposed, but Greek debt represents just 0.6% of the German banking sector and just 0.4% in the U.K.

MORE COVERAGE INSIDE

European governments are the largest holders of Greek debt, but the most exposed countries are Slovenia and Malta where the exposure represents just 3% of GDP, according to Bloomberg. Germany is the largest holder in terms of total debt, but it is just 2.4% of their GDP.

Former Eurozone problem countries Ireland and Spain are actually seeing their economies turn around. Ireland's GDP grew by 4.8% in 2014 — the fastest rate of growth in Europe — while Spain's economy grew last year for the first time since 2008 (+1.4%).

As a result, the risk of contagion caused by a Greek exit from the Eurozone appears low compared to five years ago.

Rising Interest Rates Affect Stocks & Bonds Differently

There is no arguing that historically low interest rates have helped to fuel what is now a six-plus-year bull market in U.S. equities. However, it would be incorrect to imply that the removal of low interest rates via a change in Federal Reserve monetary

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Account Performance Report Through June 30, 2015

Since 1999 we have calculated the average return 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	January 1999 to June 30, 2015	
Index	**Total Return**	**Total Return**	**Annualized Return**
Bell Average Account (1)	1.2%	205.3%	7.0%
S&P 500 Index (2)	1.2%	128.5%	5.1%
MSCI EAFE Index (2)	5.9%	109.1%	4.6%

This table compares our average account performance with the U.S.-based stocks of the S&P 500 Index and the foreign stocks of the MSCI EAFE Index over the last 16-plus years.

Despite two significant bear markets during this time period, our Active Portfolio Enhancement® methodology has produced an annualized return of 7.0% since 1999. Our advantage lies in our proactive, globally-focused, 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 for more than thirty days 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. The MSCI EAFE Index is an unmanaged, unhedged, market-cap weighted index of foreign stocks commonly used to represent developed stock markets outside of the United States. More information can be found at www.mscibarra.com. Neither the Bell Average Account nor 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. ■

A Greek Exit from the Eurozone & Rising Rates at Home: The Waiting is the Hardest Part *(continued)*

policy would cause the U.S. stock market to change course. Higher interest rates are a signal that the economy is improving, which is a positive for equity investors. Rather than which direction interest rates are trending, equity investors should be more concerned about the level of interest rates. According to The Leuthold Group, rising interest rates have not caused serious trouble for the stock market until the 10-year Treasury yield moves beyond 6%. Given that it currently sits at 2.3%, it will take an extended period of rising rates before we get close to that level.

As for bond investors, they should be most interested in the speed at which rates rise. A slow and gradual period of incremental rate hikes — which the Fed has clearly designated as its plan — will not be that damaging to the values of bonds, assuming you are not taking too much interest rate risk with your fixed income portfolio. Even in a worst-case scenario where bond yields move upwards quickly, the downside of bonds is significantly less than that of stocks. From June 1980 to September 1981, the 10-year Treasury yield climbed from 9.5% to 15.7% in just over a year. During that time, short-, intermediate-, and long-term bonds performed as follows:

Bond Index	Total Return
Barclays 1-3 Year Gov't/Credit	5.1%
Barclays Intermediate Gov't/Credit	-1.3%
Barclays Long Gov't/Credit	-19.1%

As you can see, the significant damage was limited to long-term bonds due to their high degree of interest rate risk. Intermediate bonds were close to flat. And short-term bonds actually gained ground as the benefit of being able to invest the proceeds of maturing bonds at higher rates outweighed the decline in value.

Despite what happens (or doesn't) in Europe or at the Federal Reserve, we expect that the long-term returns provided by stocks and bonds will be worth the wait. ■

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Are We Afraid to Compete?

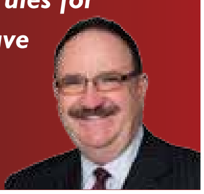
by Jim Bell, CFP®, President and Founder

The dispute between President Obama and Congress regarding the Trans-Pacific Partnership (TPP) trade deal raises the question of how committed to competition we Americans really are. Obama is asking for fast-track authority, generally granted to most presidents, so he can negotiate an entire trade package with twelve Pacific nations (a group that does not include China), which together are responsible for 40% of the world's economy. (Fast-track authority would mean Congress would have only a yes or no vote on the trade deal without the opportunity to propose or vote on amendments.)

The argument against this free-trade opportunity centers on the need to protect American jobs. I am not sure anyone else thinks like I do, but this argument for protectionism seems similar to arguing that men should be allowed to oppress women in the workplace in order to protect jobs for themselves. Historically, it has been advantageous for men to discriminate against women so they would not have to compete with them for jobs and income; discrimination results, of course, not only in lost opportunities for women (or whatever marginalized group), but in more universal losses to the community when good talent is neglected.

Who will write the rules for the unstoppable wave of international commerce?

— Jim Bell, CFP®



The ideal economic environment is one in which each person or group enjoys equal opportunity in the career of their choice, without prejudice, and, as in this TPP case, in which each country competes internationally without restriction. If China can produce the best steel at the best price, then let's have China compete freely in the global steel trade. If America produces the best generation of entrepreneurs, let's have America invent new products and services and freely market them to the world.

Of course, free trade does not *require* anyone to buy from foreign sources; if buying American-made is important to American consumers, they should have the right to express their values this way. Free trade does, however, *provide the opportunity* to buy from foreign sources, and it fosters competition.

Protecting Consumers, Workers, and the Environment

Trust is a crucial component at the heart of all business relationships and transactions.

Free trade is complicated by concerns about the lack of safety standards in manufacturing from country to country. It was not so long ago that American consumers discovered they were buying toys from Chinese manufacturers using toxic lead paint that had been outlawed in the United States. More recently, in a report on *60 Minutes*, Lumber Liquidators was found to have been selling Chinese-manufactured wood flooring containing dangerous levels of cancer-causing formaldehyde, which is also outlawed in the U.S. As a result, their stock price remains over 80% off its all-time high.

The Obama team working on the Trans-Pacific Partnership asserts that the agreement will require Asian competitors to improve their labor and environmental standards. The agreement will also establish rules to settle trade disputes, lower tariffs, honor patents, and protect intellectual property. These qualitative initiatives are crucial to protect consumers, workers, and the environment.

As American consumers, we can't always make purchasing decisions on price alone; we need to have quality assurances in place, but also do our own due diligence. If you are having your floors at home replaced, wouldn't it be prudent to know about the manufacturing source of the wood products? Have they been tested? Are they safe? Do they meet American environmental standards?

Growing Global Trade Cannot Be Stopped

Whether or not the United States consummates the Trans-Pacific Partnership, global trade will increase year after year. The question — and opportunity — on the table is, "Who will write the rules for the unstoppable wave of international commerce?"

If the U.S. declines this opportunity to lead these negotiations, China will step in to fill the vacuum, and China will get to set the rules. The Pacific nations are looking for frictionless global trade. If the U.S. backs out, they will turn to China for help. It is far better to be at the table designing solutions than to be outside looking in while China creates their own competitive upper hand. I hope that Obama and Congress come together to do something constructive by manifesting our leadership in creating the Trans-Pacific Partnership. ■

UPCOMING EVENTS

WINE & CHEESE GATHERING
The Women's Roundtable: Creating Positive Social Impact Through Values-Based Investing
Wednesday, September 16, 6 – 7:30 pm

WEBINAR
Mind Over Money Matters
Wednesday, September 23, 2 – 2:30 pm

WEBINAR
Financial Planning topic TBD
Wednesday, October 21, 2 – 2:30 pm

LUNCH EVENT
Making a Good Life Happen®
Wednesday, October 28, 12 – 1:30 pm

EVENING EVENT
Financial Literacy and Behavior for Adults and Young Adults
Tuesday, November 17, 6 – 7:30 pm

WEBINAR (FOR CLIENTS ONLY)
Investment Committee Update
Wednesday, November 18, 2 – 2:30 pm

WEBINAR
Year-End Review and 2016 Preview
Wednesday, December 16, 2 – 2:30 pm

WINE & CHEESE GATHERING
The Women's Roundtable: Taking Charge of Your Financial Future
Wednesday, December 16, 6 – 7:30 pm

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We appreciate your topic suggestions!

How to Fulfill Your Vacation Dreams

by Bonnie Bell, MA, MDiv., Principal, and Director of Career/Life Coaching

Who doesn't love a vacation? The mere *word*, which means "planned time spent not working," along with such other descriptors as "break, breathing space, intermission, recess, recreation, respite, and rest," immediately releases some sort of dreamy enzymes or hormones into my veins. But I have learned the hard way that some vacation dreams can turn into nightmares if we're not careful. Here are a few suggestions that might be more important than the destination or detailed planning.

1. Be conscious of what you need a vacation *from*.

In general, Jim and I always want a vacation from *stress*: the alarm clock; a fully packed calendar every day; always being in a rush; and never having a chance to linger over a meal or to take a nap in the afternoon or to just hang out somewhere with a newspaper or a book — without a thought to what's next or when we need to be back home. In general, on vacation we do not want to recreate the same stress we deal with at home. We all have experienced stress that accompanies even a great vacation, but we *can* consciously minimize it.

> ***We all have experienced stress that accompanies even a great vacation, but we can consciously minimize it.***
>
> — Bonnie Bell, MA, MDiv.

2. Consider, based on your own experience, what works and what doesn't work for you and your travel partner/s, discuss these ahead of time, and then build them into your vacation plans.

Jim and I are exceptionally compatible travel partners, which was obvious on the very first driving trip we took together up the coast of California through the redwoods to Bend, Oregon. This is when I learned that Jim also loved stopping at an old-fashioned coffee shop for a piece of pie or parking in the center of a no-name town to walk around and discover what might be there. Above all, we avoid stress, because that's what we are on vacation *from*. We want to enjoy every day. We avoid early morning commitments, and because it's one of our favorite things to do together, we build in plenty of walking time. We consciously incorporate the things we love to do.

3. Discuss what each of you wants most out of a particular vacation <u>before</u> you leave.

This suggestion is worth its weight in gold bullion. It works for planning family vacations, holidays, and other events as well. After getting married, we approached our first Christmas in a mood of bliss, thinking it was going to be the most wonderful Christmas of our lives. We had no idea we were heading into particularly dangerous territory, full of unanticipated landmines. After several minor skirmishes, we hit a huge one because we each had a very different picture of what happens on Christmas Eve. The tradition in my family was to eat twice: the official Christmas Eve meal followed by several hours of convivial conversation, and then a midnight snack of reheated leftovers.

This was not Jim's picture. In his family, a fundamentalist Plymouth Brethren family, there were rarely extended conversations, and after eating the brief Christmas Eve meal, visitors departed. To cut to the chase, on our first Christmas Eve together, while I was having a ball enjoying my family's tradition, Jim had disappeared from the table. Wondering why, I found him in the bedroom fuming. His idea of our first Christmas Eve included my family's early departure so we could finally be alone to enjoy our first romantic Christmas celebration.

It has been our practice ever since to discuss ahead of time what each of us wants most out of a particular vacation or holiday, and we are committed to making each other's holiday or vacation dreams come true. ■