BELL INVESTMENT ADVISORS
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The Opening Bell

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How to Dampen the Effects of Market Corrections on Your Portfolio & Retirement Plan

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

As a native San Franciscan, I find it odd that earthquakes as small as ones that register 3.0 or 4.0 on the Richter scale make news. As far as I'm concerned, that is hardly a shake at all. But then I remind myself that the Bay Area is filled with transplants from other parts of the country and globe where earthquakes do not occur as frequently or at all. For many of these folks, there can be a lot of uneasiness caused by a little shake because they have not had the same amount of exposure to earthquakes that those of us who have lived in the Bay Area for a long time have. For what it's worth, I'm sure I'd be in a complete panic at the first sight of a funnel cloud.

Recently the U.S. stock market had some turbulence of its own. In August, the S&P 500 Index underwent its first double-digit pullback (a.k.a. "correction") in four years. While the dearth of volatility

. . . double-digit stock market corrections should be expected and accepted by equity investors.

— Matt King, CFA

over the last four years created a pleasant environment for investors, it also makes that 10%+ decline all the more frightening as it has been a while since we have had to deal with one.

The Frequency of Stock Market Corrections

Analyzing stock market data as far back as 1900, Capital Research and Management Company (proprietor of American Funds) determined the approximate frequency of market pullbacks in the United States and globally. Here are their findings:

DECLINE	U.S. STOCKS	GLOBAL STOCKS
-5%	3 times per year	2 times per year
-10%	Once per year	Once every 2 years
-15%	Once every 2 years	Once every 3½ years
-20%	Once every 3½ years	Once every 6 years

U.S. data from 1900-2014. Global data from 1988-2014. Frequencies represent approximation of averages.

The first thing to note from this data is that double-digit corrections happen with some degree of frequency — once per year on average in the U.S. and once every two years for a globally-diversified portfolio. So going four years without a 10% pullback is a bit unusual relative to history. As a result, double-digit stock market corrections should be expected and accepted by equity investors. It simply comes with the territory.

The second thing to note from this data is that corrections in a globally-diversified portfolio occur less frequently than in U.S. stocks. There is a reason for this: diversification. Opening up your portfolio to the stocks of other countries that are denominated in other currencies smooths out the ride as they do not move in unison. Global diversification is one way to lessen the frequency of corrections on your portfolio. Adding bonds or other alternative assets that are not highly correlated to stocks is another.

The Effect of Stock Market Corrections on Your Retirement Plan

The effect that a double-digit correction in the stock market has on your retirement plan depends on a number of factors: the initial strength of your plan, how many years you have left in your plan, and how exposed your portfolio is to the stock market. But for the sake of illustration, let's say that we are looking at retirement plans with 30 years left that are fully-invested (100%) in the stock market. The only difference from the two hypothetical plans that we are looking

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MORE COVERAGE INSIDE

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Account Performance Report Through September 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 September 2015	
Index	**Total Return**	**Total Return**	**Annualized Return**
Bell Average APE Account (1)	-6.7%	181.5%	6.4%
S&P 500 Index (2)	-5.3%	113.8%	4.6%
MSCI EAFE Index (2)	-4.9%	87.8%	3.8%

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 6.4% 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. ■

How to Dampen the Effects of Market Corrections on Your Portfolio & Retirement Plan

(continued)

at is the strength of each — one plan tests positively because of a low draw rate (4% per year) while the other plan tests poorly because of a high draw rate (6% per year). Here is how those two plans score prior to a stock market correction:

Probability of not running out of $ within 30 years	
Strong plan (4% draw rate)	80%
Weak plan (6% draw rate)	49%

Now let's assume that the stock market corrects by 10%. If we shave 10% off the portfolio values but leave the withdrawal amounts the same, here is how the two plans score after a correction:

AFTER A 10% CORRECTION, probability of not running out of $ within 30 years	
Strong plan	73%
Weak plan	38%

While the probability of success of both plans drops, the strong plans remains strong and the weak plan weak. It's also notable that the probability of success of the strong plan drops less than that of the weak plan.

Along with diversifying into foreign stock markets, bonds and alternative investments, shore up your retirement plan if you want to limit the effect that market turbulence has on it. Just don't wait as long as they did to shore up the eastern span of the Bay Bridge after the 1989 earthquake. ■

Good News for All Bell Clients

You are automatically covered with identity theft protection! Bell has renewed our partnership with AllClearID, a firm that specializes in identity restoration and fixing other problems arising after identity theft. Should you need additional information, please contact your Relationship Manager or read more at: bellinvest.com/news-events/news.

Tulips or Wildflowers:
The Public Pension Crisis Offers a Teaching Moment for Individuals and Families Planning for Retirement

by Jim Bell, CFP®, President and Founder

In an effort to face reality, pension funds all across America are lowering investment return assumptions to their lowest levels since the 1980s. Stock market volatility and a sustained period of low interest rates are forcing officials responsible for pension plans to let go of the assumption that stocks, bonds, and other holdings will earn on average 8% year after year.

Pension funds fall into the category of "defined benefit plans", which *promise* employees a certain amount of retirement income for life based on a formula including years of service and the annual pay at the end of their careers. These promises have become such a daunting liability that most corporations have abandoned defined benefit plans in favor of "defined contribution plans", such as 401(k)s, which shift much of the retirement burden to employees.

On September 5, 2015, *The Wall Street Journal* reported that many pension plans across the country have lowered their expected return to 7.68% on average. The New York State Common Retirement Fund has lowered its expected return from 7.5% to 7%.

Managers of pension funds face challenges similar to individuals and families planning for retirement: ■ How much do I need to save? ■ How do I invest for success? ■ What does success look like? ■ How much risk do I take? ■ What is the expected investment return? ■ When can I stop working?

Moving the expected return below 8% has material consequences for pension plans, institutions, and individuals. These sources of capital must save and contribute more in order to make the plans work. According to Jean-Pierre Aubry from the Center for Retirement Research at Boston College, a drop of 1% in expected return (from 8% to 7%, for example) will increase pension funding requirements by 12% annually. That is a daunting increase whether we are talking about group pension funds or individual retirement plans.

Example of Cost-Cutting: Boulder, Colorado

Following three reductions in expected return assumptions, the City of Boulder eliminated 100 jobs and consolidated city programs. In addition, Boulder found considerable savings by replacing tulips planted all over the city with much less expensive wildflowers. The savings from this fairly simple project helped the city come up with the $1.7 million pension contribution needed to make the plan work.

According to the U.S. Census Bureau, local and state contributions to retirement systems have more than doubled in the last decade. That leaves a lot less money for services like education, police, fire, and recreation. Employee contribution requirements have increased by 50% for the same period, leaving individuals and families with less to spend now.

Analysts for public pension plans help directors face reality regarding how much needs to be contributed annually and how the money should be invested. CERTIFIED FINANCIAL PLANNERS™ perform a similar service for individuals and families. In order to make retirement spending sustainable, a family may need to reduce annual travel expenditures from $25,000 to $10,000 or plan on spending $30,000 instead of $50,000 for that new car every seven years. One of the most important aspects of retirement planning is keeping the data and results up to date so that reliable decisions can be made. Boulder could afford tulips when times were good, but needed to substitute wildflowers when the economy faltered. This kind of flexibility is equally important to folks in retirement.

> *. . . pension funds all across America are lowering investment return assumptions to their lowest levels since the 1980s.*
> — Jim Bell, CFP®

Bad Dreaming

According to Lawrence J. McQuillan, author of *California Dreaming: Lessons on How to Resolve America's Public Pension Crisis*, California State Teachers' Retirement System (CalSTRS) is short $74 – 104 billion that should be invested now to fulfill its promise to teachers. Last year, the California State Legislature passed Assembly Bill 1469 requiring teachers to increase their contributions from 8% annually to 10.25% by 2016, a 28% increase. School districts are required to increase their contribution rate from 8.25% of payroll to 19.1% by 2020, a 132% climb. These increases may save the pension system, but school districts will have less money to hire teachers, repair schools, and build classrooms. Politicians have a history of using CalSTRS to overpromise teachers and underfund contributions.

McQillan advocates that public pensions migrate toward 401(k) plans; the burden on public pension plans is too great and the politics too unreliable. When it comes to financial planning for individuals and families, working with a CERTIFIED FINANCIAL PLANNER™ helps create a balanced experience integrating income, spending, saving, and investing, which should avoid the kind of drama we are witnessing with public pension plans at this time. ■

UPCOMING EVENTS

WEBINAR
Facing Reality: The Public Pension System Crisis Offers a Teaching Moment for Individuals and Families Planning Retirement
Wednesday, October 21, 2 – 2:30 pm

LUNCH, NETWORKING, PRESENTATION
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

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What Will You *Do* During Retirement?

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

So much attention is paid to how much money you will need during retirement that often the whole question of what you will do with yourself during retirement is ignored. Too many people simply assume that having free time will be so wonderful that worrying about what to do with it is a waste of time. The fact is that research of retirees reveals that after about two years, they tend to feel disengaged from the marketplace and a considerable amount of discontent.

I'm not suggesting "worrying" about what to do, but I am strongly suggesting that you spend a significant amount of time "wondering" about the kinds of things that would add interest, purpose, focus, and fun to the free time you have ahead of you so you don't end up feeling as if you have just frittered away the time you finally have at your disposal. Think of all the times you said, "I just don't have time to do that!" or "Where does the time go?" If you are anything like me, you definitely don't want to end up feeling the dreaded, "Is that all there is?" when all is said and done.

You can't just cross your fingers and hope that a good retirement will happen.

— Bonnie Bell, MA, MDiv.

Here are some general principles to keep in mind:

1. If you are thinking about moving somewhere, you want to think about moving ***toward*** more love and support, not farther away from it. It's just as hard to replace old friends who have known you for years, as it is to replace intimate family relationships.
2. Don't ignore the importance of the community in which you live. It might be tempting to move **to a l**ess expensive area to save money during retirement, but who might your neighbors be once you get there?
3. Are you thinking about volunteering? Volunteering can run the gamut from helping out at your grandchild's school, to being a Guardian ad Litem for a foster child, to literally holding babies at Children's Hospital — you name it, and you can probably do it. One of my clients renewed her life-long desire to become an actress and playwright at The Marsh Theater in San Francisco and Berkeley, and Stagebridge in Alameda; another became the foster parent of a baby whose mother was in jail; another went back to college to complete the degree in anthropology he never finished; another volunteered as an usher for both the San Francisco and Oakland Symphonies, Berkeley Rep, and Aurora Theater to assuage her ravenous appetite for live performance; another spends many happy hours a month granting wishes for kids who are recipients of the Make a Wish Foundation.
4. If you find you miss working, need more income during retirement, or miss the meaningful relationships that tend to emerge from work situations, Google "jobs for retirees," where you will find lots of inspiration.

Making a good life happen and making a good retirement happen go hand-in-hand. Be proactive. You can't just cross your fingers and hope that a good retirement will happen. Do what you can to make it happen, and if you hit some barriers, get help! You will continue to evolve. ■

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The 2015 Bell Youth-in-the Arts Grant

Applications are currently being reviewed. This year's recipient will be announced soon!