



## Building Your Portfolio's Stamina

by Forrest Bell, CFP®, Sr. Investment Advisor, Financial Planner

In an interview late last year, the esteemed portfolio manager Matthew McLennan commented on the impressive performance of the U.S. stock market over the last five years. He called this period the “window of U.S. exceptionalism” during which the U.S. dollar and the U.S. stock market demonstrated impressive strength, while other currencies, such as the Japanese yen and Chinese renminbi, lost value. In addition, although most foreign stock markets still have not returned to their pre-2008 levels, the U.S. market surpassed its own pre-2008 level years ago.

All of this has made the U.S. stock market a great place to invest; however, this window of strong U.S. market returns with low volatility may be closing. If we look at what happened in 2015 and what

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has happened so far in 2016, we find that the U.S. market could very well be more volatile in the coming years. In fact, McLennan has suggested that at current stock-price levels, the returns on U.S. stocks will fall into a range of 4 to 6% per year for some time.

Periods of low returns in the U.S. market

are not unprecedented. Not so long ago, the U.S. market passed through a ten-year period now known as the “lost decade.” From January of 1999 to December of 2008, the U.S. market, as measured by the S&P 500, posted an annualized return of -1.7%.

For those still earning income and saving, periods of this type will not derail a solid financial plan. Sometimes, in fact, they can even create the possibility of retiring into a period of exceptional returns, which is a nice trick for those lucky enough to pull it off. But for those starting the withdrawal phase of their financial plans, the effect of a low-return environment in the U.S. can be more dramatic.

If McLennan is right and we are heading into a period of lower U.S. market returns, then we should plan a response, an investment strategy that is flexible enough to take advantage of foreign markets. Returns on foreign stocks, however, as with U.S. stocks, do not work on a schedule.

Unfortunately, we can't control the year-by-year returns of a portfolio, but there is something we do have control over: improving our portfolio's *stamina*.

### How to Build Portfolio Stamina

*Portfolio stamina* is the ability of a portfolio to last long enough to fund all of your goals. Strong risk mitigation improves portfolio stamina because limiting the losses in a portfolio during a market downturn preserves the capital needed to fund those goals. Additionally, strong in-

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vestment return improves portfolio stamina. Clearly, it is helpful when a portfolio's growth exceeds the cost of your goals.

It's easy to see how limiting risk and having strong investment returns can improve portfolio stamina. However, people often view these two factors as the only important ones in assessing a portfolio's stamina, but that's not true.

### Your Withdrawal Strategy

Designing and executing a dynamic withdrawal strategy, especially in a period of low returns, is a key way to improve portfolio stamina. There are many things to consider when looking at dynamic withdrawal strategies. Time horizons, withdrawal rates, and stock and bond valuations are all important, but a primary consideration is deciding on what to sell when.

In research published in the *Journal for Financial Planning*, David Blanchett looked at a portfolio made up of sixty percent stocks

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# Account Performance Report Through March 31, 2016

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:

Index	2016	January 1999 to March 31, 2016	
	Total Return	Total Return	Annualized Return
Bell Average APE Account <sup>1</sup>	-3.1%	186.6%	6.3%
S&P 500 Index <sup>2</sup>	1.4%	131.9%	5.0%
MSCI EAFE Index <sup>2</sup>	-2.9%	91.0%	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<sup>®</sup> methodology has produced an annualized return of 6.3% 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

<sup>1</sup>Includes the effects of Bell's management fee, mutual fund expenses, Schwab transaction fees, short-term redemption fees, and cash holdings.

<sup>2</sup>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](http://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.msicibarra.com](http://www.msicibarra.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. ■

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## Building Your Portfolio's Stamina *(continued from page 1)*

and forty percent bonds. He subjected these portfolios to different withdrawal rates over different periods of time. (Thirty-year time periods are popular for these kinds of tests.)

He noticed that in periods of low returns, it often improved portfolio stamina to decrease stock exposure over time. An organic way to accomplish this is by raising cash to fund goals by selling stocks instead of bonds.

Blanchett saw that by emphasizing the sale of stocks in a period of low stock returns, the allocation of bonds would grow over time and so would the stamina of the portfolio. For portfolios subjected to an annual four percent withdrawal rate, the gradual decrease of stock exposure improved portfolio stamina by seven percent compared with other approaches.

At first glance, a seven percent difference may not sound like much, but it is, in fact, an important shift. Such an amount can be the difference between funding your goals or missing your targets. ■

## Where Do You Find Fulfillment? *(continued from page 4)*

A cornerstone of *being* is contributing to others. One of my friends recommended that my prayers and meditations should include others as opposed to just being about me. He suggested that I try an ancient Buddhist prayer, which I will paraphrase:

*May all beings enjoy happiness  
from the root of happiness;  
May all beings avoid suffering  
from the root of suffering.*

■



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# "The Healing Power of Forgiveness"

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

... and why, I wonder, is there an essay with this title in the *Wall Street Journal*? (3/31/16, Journal Report, Encore Feature, page R8). One reason, I imagine, is that it was very close to Easter (March 27), and rather than having a more religious article about the Easter-related theme, this essay by WSJ contributor, Diane Cole, deals with the importance of forgiveness as a matter of mental and physical health, if nothing else. As I read on, it occurred to me this was also a theme appropriate for *The Opening Bell*, since it falls under the rubric of our firm's philosophy, *Making a Good Life Happen*®. It's hard to imagine anyone having a very good life if they are filled with anger, blame or resentment. I regret not being able to reproduce here the illustration that accompanies the article: a defeated person, head downward, carrying a load of heavy stones in a sack on his over-burdened back.

I went to sleep soon after writing the paragraph you have just read. I didn't know what I was going to say next, but during the night I had an interesting dream: *I was standing in front of a room full of about 60 people who had gathered there to hear my talk on the theme of forgiveness. It was one of those dreams about unpreparedness in which I realized I had not yet written the talk and in only a few minutes it would be time for me to deliver it. Instantly the idea shot into my head that instead of me talking about forgiveness, I would do a brief introduction to the theme and then pass the mic to anyone who had a story to tell either about someone they had been able to forgive for a transgression, or a story about having been forgiven by someone else for a personal transgression.* I had a restful night's sleep after settling that.

## The Colonel's Story

When I awoke on Saturday morning, April 12, I turned on NPR as usual, where I would listen to Weekend Edition. As if on que, there was a story in progress about forgiveness. It's a story that began toward the very end of the Gulf War in 1991. Army Specialist Andy Alaniz, who was only 20 years old at the time, was one of 35 Americans killed by friendly fire in Iraq just hours before President George H.W.

Bush brought the entire conflict to an end. He was survived by his wife, Catherine Alaniz-Simonds, who was 19 years old at the time and six months pregnant with their first child.

Recently, to mark the 25<sup>th</sup> anniversary of the ending of the Gulf War, Alaniz-Simonds arranged a meeting between herself and Col. David Taylor, the officer in charge of the troops responsible for the "friendly fire" that resulted in the death of her husband, Army Specialist Andy Alaniz. StoryCorps, a non-profit organization that helps facilitate such conversations, records them, and ultimately houses the recordings in the Library of Congress. If you have listened to StoryCorp episodes on NPR, you will know that they often deal with meaningful reunions and positive outcomes. (To listen to this particular story in full, Google: NPR, Morning Edition, Saturday, April 9, 2016. For more about StoryCorp, go to StoryCorp.com.)

## Their Conversation

This is where I pass the mic to Col. Taylor and Catherine Alaniz-Simonds: The interview begins with Col. Taylor, through his own tears, talking about the daily load of guilt he has carried for the past 25 years over the death of Andy Alaniz, how he has been consumed with the thought that this death could have been prevented, and that he (the colonel) was responsible. Catherine Alaniz-Simonds, the widow, is then heard to say, through her own tears, that she knows her husband would not have wanted Taylor to suffer in this way; that was not the kind of person her husband was. The reason she had to urge this meeting was that she wanted Col. Taylor to be able to move on, and she wanted this story recorded, because what she feared most was that in time, no one but she would remember her husband. He would be completely forgotten, a thought she couldn't stand. Col. Taylor assures her that will never happen now, and that while he dreaded this meeting, he now realizes that her forgiveness has made him whole again, and that he will be able to live more fully. Now, through my own tears, I experience a heaviness lifting from me. In a dream after

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— Bonnie Bell, MA, MDiv.



hearing the colonel's story, I kiss the cheek of someone I have yet to forgive ... and now I will find a way.

As Diane Cole says in the subtitle of her essay, "Things we've done — and things done to us — carry tremendous weight. Let them go." Easier said than done, obviously, but definitely doable, and worth it on every level. ■

## UPCOMING EVENTS



**LUNCH, NETWORKING, PRESENTATION**  
**Making a Good Life Happen**®  
Wednesday, April 27, 12 – 1:30 pm

**LUNCH & LEARN**  
**How to Make Your Life Work Financially**  
Wednesday, May 18, 12 – 1:30 pm

**CONCERT SPONSORED BY BELL**  
**Oakland Symphony:**  
**Stravinsky & Silverman**  
**[oaklandsymphony.org](http://oaklandsymphony.org)**  
Friday, May 20, 8 pm

**WEBINAR (FOR CLIENTS ONLY)**  
**Investment Committee Update**  
Wednesday, May 25, 2 – 2:30 pm

**WINE & CHEESE GATHERING**  
**The Women's Roundtable**  
Wednesday, June 29, 6 – 7:30 pm

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We appreciate your topic suggestions!

# Where Do You Find Fulfillment?

by Jim Bell, CFP®, President and Founder, Chief Investment Officer

I don't like the term "bucket-list." I may be a bit prudish, but I prefer to think about life and death with language that is more dignified. Another term I don't like comes from the performing arts where board members and staff talk about "butts-in-seats." Really? You're responsible for a ballet company, and you talk about "butts-in-seats?" In spite of my dislike for the language, I was drawn to the article by Marc Agronin in the Encore section of the March 29, 2016 *Wall Street Journal*, *It's Time to Rethink The Bucket-List Retirement*. This article is right up my alley. I have long appreciated the qualitative distinction between life that is all

about destinations and life that is about the journey. I wrote about this years ago in a white paper about resilience. My conclusion is that people who live by a *journey philosophy* are far more resilient than people focused on the destination.

## Being and Doing

Mr. Agronin is a therapist who does a masterful job explicating the distinctions between *being* and *doing* as choices we make based on what is important to us. In this article, the author refers to some of his clients (anonymously, of course) who became more and more depressed and alienated as they worked through their personal bucket

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— Jim Bell, CFP®



lists, which required extensive travel and a lot of time away from family and community. They began to feel like strangers in their own homes, and their children and grandchildren felt hurt that their itinerant relationships were more important than their own flesh and blood. For various reasons, these patients began to realize that their bucket lists were all about fleeting thrills, which tended to become addictive and resulted in disconnecting them from their real lives.



Another risk of the bucket-list pursuit is that others you care about may not be able to relate to your values and experiences. My wife Bonnie and I were recent guests at a dinner party where everyone at the table loved taking luxury cruises, one after another. This is what brought them together and this was pretty much all they wanted to talk about. I tried to steer the conversation in other, deeper directions a few times, but it always circled back.

Bonnie and I are just not cruisers. We tried a river cruise a few years ago and discovered that we like our travel to be more independent, private, and leisurely. We left the party feeling there was not much interest in anything but travel, and therefore not much

interest in us. As we were leaving, one of the hosts confided that he felt the same way. No one revealed what they were learning about themselves or the world, and none of us got to know each other any more than we had when we walked in the door.

The alternative to the bucket-list approach to life is to focus on *being* rather than *doing*. How can you deepen your bonds with your family and community? How can you reimagine your travel to share experience and wisdom with grandchildren? How can you deepen your satisfaction socially, civically, and spiritually?

The U.S. General Social Survey out of the University of Chicago and the Gallup Healthways Well-Being Index both

document that well-being starts out high in early adulthood, reaches a nadir in mid-life, and a zenith in later years. Mr. Agronin writes: "You don't need to make yourself happier in old age. We get happier *naturally* as we grow older." In my experience, this happiness comes more from a sense of *being* than *doing*.

## Happiness

I like to refer to our later years as Act III, where our happiness comes from reduced expectations and ambition, less emotional volatility, and greater acceptance and gratitude. Through our maturity and experience, we also develop more effective problem-solving skills.

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Building Positive Momentum in  
Our Community Since 1991