BELL INVESTMENT ADVISORS
MOMENTUM FOR LIFE®

The Opening Bell

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The Year of the Wall

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

Since the 2016 presidential campaigns began over a year ago, there has been plenty of talk about walls — both for limiting free trade and for stopping immigration. The first casualty of the presidential campaigns has been the declining public support for free trade agreements; this is very unfortunate for economic reasons and for our future well-being. The plan for an impervious wall on the border between Mexico and the United States is not only unfortunate, but ironic since the influx of Mexican immigrants has been decreasing; in fact, the Pew Research Center, according to the Migration Policy Institute, reports that since the end of the Great Recession in 2009, more Mexican immigrants have returned to Mexico than have migrated to the USA.

North American Free Trade Agreement (NAFTA)

One reason why immigration from Mexico has declined is that NAFTA helped to improve the economy in Mexico, so workers have less incentive to come north. This should somewhat assuage the fears of those who feel threatened by Mexicans

crossing into the United States through our southern border.

The Anti-Defamation League reports that immigrants, regardless of their status — documented or undocumented — are less likely to commit crimes and become incarcerated than native born US citizens. Immigrants are twice as likely as those native born to start businesses and thereby create jobs. States with large numbers of immigrants report higher employment for everyone. Yes, we do need greater control of our borders with better oversight, documentation, and security, but it is simply not the crisis that some people imagine or claim.

The UK vote to wall off the European Union has severely alienated British youth, who see the world where it is and where it is going.

— Jim Bell, CFP®

The American Trade Wall

The April 2, 2016 issue of *The Economist* reports that if the US were to cancel all trade agreements, median income earners would lose 29% of their purchasing power, and the lowest income earners would lose 62%, because they spend more on goods from trade. Because of our existing trade agreements, clothing costs are actually the same as they were in 1986, and furnishing a home costs the same as it did 35 years ago. The improvement in cost of living from trade agreements is not something the anti-trade parties talk about. The globalization of manufacturing is well-established and here to stay. We can learn to manage globalization and trade agreements to our advantage, or the rest of the world will fill the void and make us poorer.

The Trans-Pacific Partnership (TPP)

This trade agreement among 12 Pacific-rim countries, excluding China, is losing support from the national conversations and presidential campaigns. The TPP has three major priorities: to protect intellectual property, which is now largely unprotected overseas; to liberalize trade in services, not just manufacturing; and to enforce stricter labor and environmental standards. *The Economist* concludes that all of this will likely help American workers. In a win/win situation, our trading partners become stronger and able to afford US goods and services; and global competition helps motivate American

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MORE COVERAGE INSIDE

Account Performance Report Through June 30, 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:

	2016	January 1999 to June 30, 2016	
Index	**Total Return**	**Total Return**	**Annualized Return**
Bell Average APE Account[1]	0.0%	195.6%	6.4%
S&P 500 Index[2]	3.8%	137.6%	5.1%
MSCI EAFE Index[2]	-4.0%	88.7%	3.7%

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. ■

The Year of the Wall *(continued)*

innovation, which creates good jobs at home and abroad. We need to do a better job enforcing our trade agreements, and the TPP is a step in that direction.

Free Trade Hurts Some People

The unstoppable advance of technology and trade has replaced so many jobs that educational achievement and skills training continue to become more and more crucial. Michael Bloomberg asserts that technology has hurt workers far more than trade.

During the summer following my high school graduation, I stayed in Germany with two different families, one rural and one urban. I was impressed by the German educational system and its ability to appropriately direct students toward trades and skills education or toward universities, based on their preferences and abilities. We Americans are too biased toward four-year college degrees. There are so many students who are well-suited to become trained electricians, plumbers, carpenters, welders, and chefs. In some of these trades, we have serious shortages. We need to catch up to Europe and support workers where they will be happy and successful. Our community colleges are beginning to fill the gap with effective vocational training, but we need to catch up to Germany, which is so effective in upgrading the skills of its workforce through its established system of apprenticeships.

The UK vote to wall off the European Union has severely alienated British youth, who see the world where it is and where it is going. We will now all be forced to observe the consequences of the UK vote for their version of creating a wall between the UK and the rest of Europe. Following the vote to leave the EU, hate crimes, racism, and racial violence in the UK spiked from an average of 60 per week to 330 in the week following the vote to dis-unite the kingdom.

Isaac Newton had it right when he said, "We build too many walls and not enough bridges." ■

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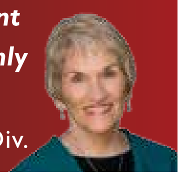
Bell Investment Advisors Investment Management ▪ Financial Planning ▪ Career/Life Coaching

Retirement and Self-Esteem

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

I've always been a groupie of certain comedians, including David Letterman for many years, and have recorded gobs of late night shows, including Saturday Night Live, so I can watch them whenever I need some laughs. I need more and more laughs all the time as an antidote for all the terrorism and political craziness in our country right now.

> ***Research on the relationship between retirement and a drop in self-esteem has demonstrated that this can be a significant problem, but it certainly doesn't have to be!***
>
> — Bonnie Bell, MA, MDiv.



David Letterman in Retirement

I didn't like it one bit when Letterman started talking about his retirement, but I accepted it and assumed he would continue to perform somewhere other than the Late Show for many years to come. Not only has he made little to no appearances, but he has grown a full-face Farmer John-type beard, which probably prevents many invitations to perform that might otherwise come his way. Even his beloved young son, who hates the beard as much as I do, can't get him to shave it off. His son says the beard makes him look creepy, and I agree. It also makes him look very retired and not likely to return to work.

In May, Letterman received a Peabody Award for his long-time late night show, which changed the landscape of late-night programming forever. During his acceptance speech, he remarked, "If you want to have something affect your self-esteem, retire." He went on to tell the story that he and his wife had recently been invited by the Obamas to a state dinner at the White House. He was excited about the honor and feeling like a big shot, when toward the end of the dinner one of the guests with whom he had been chatting — the assistant chief of staff to the prime minister of Norway — said, "Excuse me. Why are you here?" And Letterman said, "You know what? I think I picked up

somebody else's mail." The aide to the prime minister of Norway said, "So you're here by mistake?" And Letterman said, "Yeah." And the aide said, "Oh."

So there you go, Letterman says, "You get invited to a state dinner, nobody knows why. That's the sum total of being retired."

Well, this is not exactly the sum total of being retired for everyone, but I'm afraid it might be for Letterman who doesn't seem to have done much thinking about what he was going to do after retirement. Research on the relationship between retirement and a drop in self-esteem has demonstrated that this can be a significant problem, but it certainly doesn't have to be! To read more about the relationship between low self-esteem and retirement, Google the topic itself, and keep an eye out for a blog site called Dynamic Aging Institute, and blogger Dudley Tower, Ph.D.

One Client in Retirement

I recently checked in with a client I worked with in 2014 to see how she was enjoying her retirement — or not. We did some coaching sessions after she had taken an early retirement from a big corporation in which she had held powerful leadership roles for almost three decades. She had loved her work, and wasn't sure how she would do in retirement after such a challenging career. She had many interests and passions, so I wasn't at all worried about her in retirement, just curious. Below is a summary of her update email to me:

Since we last met, I have been doing a variety of volunteer activities:

- Tutoring at an under-served elementary school
- Doing intake for Community Court
- Working the phones at the Homeless Prevention desk in our community
- Being on the Board of the non-profit I mentioned to you when we last met
- Doing short-term respite care for a number of foster kids
- Keeping up with reading, yoga, traveling, hanging out with friends

Plus: doing a little consulting and generating a modest paycheck.

"It's all good." she says, "I am quite happy with the variety of things I do." Sounds like she's *Making a Good Life Happen®!* I don't think her self-esteem is suffering one bit, do you? ■

UPCOMING EVENTS

Enjoy the summer!

Join us for these September events.

WINE & CHEESE GATHERING

The Women's Roundtable

Wednesday, September 21, 6 – 8 pm
To register:
510.433.1066 or rsvp@bellinvest.com

WEBINAR

topic to be determined

Wednesday, September 28, 2 – 2:30 pm
Registration not yet open.

We appreciate your topic suggestions!

Retiree Spending: Latest Research

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

Every year brings a fresh batch of research concerning the dynamics of retirement life. And this year, a number of studies have the potential to reshape aspects of retirement planning for the better. Having created many financial plans during our 25 years of business, we know that the choices and paths individuals take are deeply personal. Every financial plan is different in some way. No set of historical data applies to every client, but understanding what research uncovers about retirement improves how we think about the future and anticipate what it will bring.

Periods of Retirement

This year, some research about retiree spending has surfaced that is particularly helpful for financial planning. It has long been assumed that retirees' living expenses rise over time, which to some extent is true, but there is some fluctuation that should be noted. In the years immediately after retirement, expenses are often especially high because many couples choose to do things from their bucket list such as world travel or home remodeling. Then, as people age and the demands of travel become less attractive, expenses go back down; but they rise again later as medical expenses go up. These three periods of retirement have become known, respectively, as the "go-go," the "slow-go," and the "no-go" years.

Correlation with the CPI?

New research has taken a look at the slow-go years. For a long time, this period of retirement has been treated as if expenses during this stage of life increased at the same rate of inflation as in other periods of life. We assumed that expenses related to the slow-go period rose according to the Consumer Price Index (CPI); for example, if inflation was 3%, retirees' expenses were expected to go up at approximately that same rate of 3%.

While using the CPI as a gauge works well for most phases of life, it turns out that for the slow-go phase, it may not apply. After reviewing new research in the *Journal for Financial Planning*, Certified Financial Planner™ Jonathan Guyton noted that retiree spending does not track with the CPI; in fact, it falls well short of it. The research suggests that this is true particularly for retirees between the ages of 65 and 85.

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— Forrest Bell, CFP®

Take, for example, couples aged 65 spending \$100K per year. If we assume that their expenses correlate with the CPI, we would expect them to be spending \$158K annually by age 80. But according to the research, couples in this demographic will likely see their expenses trail the rate of inflation by 20%, resulting in actual expenditures of only \$146K. By the time the couples are 85, the effect becomes even more dramatic as living expenses trail the rate of inflation by a surprising 30%. We'd expect CPI-correlated expenses to be \$184K, but research shows they would actually be \$159K. As we can see, expenses continue to increase, but much less substantially than once thought.

Not So Grim!

Most of the media coverage about retirement is grim. There are plenty of studies that show too many people are unprepared to cover their living expenses when they stop working. They haven't sufficiently planned or saved for their retirement. But this new research presents a little hope. Instead of living expenses rising inexorably in lockstep with the CPI for all of retirement, it looks as though they moderate, which means the gap between needs and resources mercifully shrinks a little. For that, we can be grateful. ■