



BLUE BELL PRIVATE WEALTH MANAGEMENT

Blue Bell Private
Wealth Management

Fall Newsletter

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What a Different Quarter?

Dangers of Market Timing

If you listened to many of the so called financial pundits on CNBC and several other media outlets, you probably missed most of the 8.8% September rally in the S&P 500. After a brutal August, the familiar drone was, "Considering the month we just had, and September's well deserved reputation for being the worst month of the year, why would I invest now?" CNBC published an article on August 31st 2010, titled "Stock Investors Brace for Another Ugly September." Below are quotes from that article:

"There is little to gain by investing right before September and a lot to lose, so why risk it?" he says. "The September effect is well-documented." -Dominick Vetrano of Fountainhead Financial in Chicago

"If history is any guide, for it's never gospel, we may be in for another rough ride." -Sam Stovall, chief investment strategist at Standard & Poor's.

"September is usually a dog of a month for the market. It typically starts with solid market increases, then tails off. There's just a general selling bias in the month of September." -Jeffrey Hirsch, editor-in-chief of the Stock Trader's Almanac.

"I don't think it would take a whole lot to get investors to start selling and consumers to start pulling back again. The collective psyche is on edge." -Mark Zandi, chief economist at Moody's Economy.com.

This kind of thinking and subsequent market performance illustrates the dangers of market timing.

Hedge funds didn't fare much better for the month and have continued their abysmal relative performance since the beginning of 2008. The domestic equity Hedge Fund Index (HFRX) underperformed the S&P 500 by 5.57% for the month and is underperforming for the year. In my opinion, what is even worse are the results from market neutral hedge funds. With the S&P 500 up 2.34% for the year, a market neutral strategy would appear to have been an intelligent strategy to choose at the beginning of the year. Investors that selected hedge funds as a way to employ this strategy may have been disappointed as the HFRX Market Neutral Strategy is up 0.14% for the year.

According to RBC, 30% of managers have underperformed their benchmark by 5% or more so far this year.

Why Did the Markets Rise So Dramatically in September?

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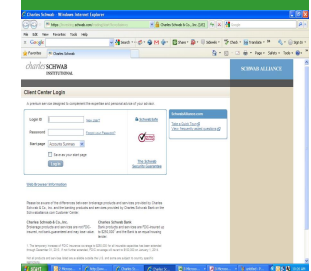
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Newsletter Quote

"It's quite clear that stocks are cheaper than bonds. I can't imagine anybody having bonds in their portfolio when they can own equities, a diversified group of equities. But people do because they lack confidence. But that's what makes for the attractive prices. If they had their confidence back, they wouldn't be selling at these prices. And believe me, it will come back over time."

Warren Buffet

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Update (continued)

I believe much of the rise can be attributed to many of the positives we highlighted in our August Recap email. Investor sentiment was extremely low and typically there is a contrarian snap back to the market. Some of the long-term positives we emphasized included: the high cash levels of many companies, M&A activity, stock buybacks, and low debt servicing costs. It is almost as if Microsoft had read our email as they confirmed these positives in one large transaction. Microsoft, a company flush with cash, chose to borrow money to buy back their own stock. What this transaction says to me is that Microsoft believes rates are low and will rise, they don't forecast deflation, and they believe their stock is too cheap. If Microsoft is correct, it is a positive sign for the market.

Fun Facts

- Golfer Jim Furyk made \$11.35 million on September 26, 2010, \$1.35 million for finishing first in the Tour Championship held in Atlanta and \$10 million for winning the season long FedEx Cup.
- In their entire professional golfing careers, Arnold Palmer and Jack Nicklaus made a combined \$7.6 million in tournament winnings (source: PGA)
- Also, Furyk purchased a putter for \$39, which he used to win the Tournament. \$39 turned into \$11.35 million! He must be a value investor.



Additionally, we pointed out that economic data continues to get 'less bad'. This trend continued through September as jobless claims decreased and second quarter GDP was revised upward slightly from 1.6% to 1.7%. I don't believe this means we are going to have a robust economy anytime soon, but the importance of this trend is that it lessens both the fear and chances of deflation. Let's hope it continues.

Good News is Good News, Bad News is Good News

Positive economic data is a positive for the market. The Fed statement on September 21st has many investors believing that bad news may be good news. The Fed was uncharacteristically adamant that they would take any steps necessary to support the market.

What are the Alternatives?

There doesn't seem to be many alternatives to the stock market. Fixed income rates are extremely low, making CDs and bonds less attractive. Investors remain skittish about real estate and banks continue to be wary of lending. Commodities, especially gold and silver, continue to do well, but many investors are cautious of an over allocation to this area. Investors seem to be pulling back from Private Equity allocations as over weightings in 2008 proved to be especially painful. Variable annuities continue to be expensive, complicated, too long-term, and potential returns are impeded by complex formulas and caps imposed on them. Art and collectable investing requires intimate knowledge of the subject and many times carries a large commission or service charge. Additionally, there may be high ongoing expenses for storage and insurance.

September proved to be a tremendous month for the market. What should be taken away is not necessarily the rise in the market but rather the difficulties of market timing. These difficulties are highlighted perfectly by the American Association of Individual Investors (AAII) sentiment survey. On August 26, 2010, (before the rally) the percent of bulls was **20.7%** – By September 16, 2010, just three weeks later, (after most of the rally) the percent of bulls had risen to **50.9%**.

J. Scott Miller, Jr.



Social Security: Decision Time!



The decision about when to begin taking your Social Security benefits can be complicated.

We are all living longer nowadays. According to the Social Security Administration, 1 in 4 65-year-olds today will reach age 90 and 1 in 10 will live to be older than 95. As our lifespan grows longer, there is an increased chance that you will outlive your savings. You need to be prepared for a longer retirement and one important decision to make is when to begin taking Social Security benefits.

Most people choose to start receiving their benefits as soon as they are eligible, at age 62. This may not be the best strategy for many. This is an appropriate strategy, especially if you are in poor health or have a family history of medical problems. Others, such as those in good health or those who have substantial savings, may benefit by postponing their payments and collecting larger monthly payments down the road.

The decision about when to take social security benefits is straightforward:

1. Receive smaller monthly payments by taking benefits at age 62,
2. Receive full payments by starting benefits at your normal retirement age, or
3. Receive larger payments by delaying your benefits until age 70.

The decision for married taxpayers can become considerably more complicated, because, in certain situations, one spouse's decision can affect the maximum benefit the other can receive. Below are a few ways couples can increase their benefits:

Claim and Suspend:

The spouse that earned the least cannot receive the other spouse's benefit until they file for benefits. Workers who have reached their full retirement age may apply for benefits, then request for the payment to be suspended. Claiming, then suspending payments, will allow the lower earner to claim a spousal benefit and the higher earner to continue working and earn delayed retirement credits until age 70. Benefit checks will increase between 7-8% per year between your normal retirement age and age 70. There is no additional benefit to waiting after age 70.

Utilize Spousal Payments: Spouses are eligible to receive a payment of up to 50% of the higher earner's payment if that amount is higher than benefits based on their working record. Those who have the most to gain are couples where one spouse did not work or had low earnings. A spouse who utilizes these payments must wait until their full retirement age to collect the 50% benefit. The spousal benefit does not increase above 50% of the other spouse's benefit if the claim is made beyond the full retirement age.

Claim Twice:

Working couples who have reached their full retirement age can claim twice: first as a spouse and later using their own working record. A spouse may choose to elect the other spouse's benefits at their full retirement age and continue accruing delayed retirement credits on their own record. The worker may then file for benefits based on their own work record at a later date and receive a higher monthly benefit due to the delayed retirement credit.



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FYI

Since the beginning of 2008, stock mutual funds have suffered cash outflows totaling roughly \$245 billion. In contrast, bond mutual funds have enjoyed inflows of close to \$616 billion, according to data from the Investment Company Institute, a mutual fund industry trade group.

"The money flowing into bond funds shows me that people have not disappeared and are still taking charge of their money," said J.J. Kinahan, chief derivatives strategist for TD Ameritrade. "They've just been scared out of the stock market so they will return in a slower fashion than they have in the past."

As of October 1st 2010, remaining in the equity markets since the 2009 lows has certainly been the right choice. Unfortunately it appears as if many investors abandoned the equity markets near the lows.

Blue Bell PWM in the News

"Consumers should be able to find a matching return on an index up to 45 percent or so. He recently offered his clients five-year indexed CDs that pay no interest and match the Dow's return up to 47.8 percent.

"These clients want to be safe, but they still want to have some chance for market participation over the next five years." Justin Capetola, *BankRate: September 28, 2010*, speaking about Indexed CDs mimicking the market

"I think fees are very important. We use a competitive bid, reverse inquiry process. We check with ten investment banks and give all of the banks the exact same criteria.. We are the ones who decide who has the best terms."

"While the spectrum of bids usually come in within a rather tight range, there is sometimes an outlier. My biggest fear is overexposure to any one bank, this is especially important in a post-Lehman Brothers world."

"To me the S&P500 is something we can all follow and everyone can bid on the same product, if you have a product with a proprietary index, it can be more expensive." J. Scott Miller, Sr., *Structure-dRetailProducts.com: October 4, 2010*, speaking about fees for Structured Products

REMINDERS

- Required Minimum Distributions (RMDs) have returned for 2010. Anyone 70 1/2 or older needs to take their RMD by **December 31, 2010**. As in the past, we will assist you in taking your Required Minimum Distributions. Please let us know if you have any other IRAs outside of Charles Schwab, so we can include them in our calculations.
- Please contact Scott Jr. or Justin to schedule your account review, 610.825.3540
- The IRS is now requiring anyone taking a RMD to sign off on their tax withholding for the distribution. If you have not signed off on the withholding on the IRA distribution form, please let us know and we will send out a new form.
- Would you like to view all your financial information, investments, mortgages, banking and credit cards on one secure site? Please contact Justin for details.
- Please see our updated disclosure documents. Please call us with any questions you may have.
- Please remember to contact Blue Bell Private Wealth Management LLC if there are any changes in your personal/financial situation or investment objectives for the purpose of reviewing/evaluating/revising our previous recommendations and/or services.

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