



# BLUE BELL

## PRIVATE WEALTH MANAGEMENT

Fall 2011

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## High Dividend Stocks

A popular recommendation I am currently hearing is purchasing high dividend stocks. While I believe this recommendation does have validity, I can't help but think back to late 2007 and early 2008 when investors were buying bank stocks for their outsized dividends. The current market environment is extremely volatile and many managers seem to be at a loss for what to do. This advice seems to be the result of the lack of a better idea, as opposed to advice with strong conviction. While I agree with the general recommendation, I believe there are better ways to execute it. Remember a portfolio that is not diversified may still have outsized risk even with hefty dividends.

We prefer two alternatives to simply buying stocks paying large dividends. One is buying an ETF, such as SPY, and then writing calls against it. This strategy is known as covered call writing.

This is what options express says about covered call writing: *Covered calls are a way to earn additional income on your stock portfolio. For conservative investors, selling calls against a long stock position can be an excellent way to generate income.*

SPY is the ETF tracking the S&P 500 and currently pays a dividend of approximately 2% (see figure 1 on page 2 for top 10 holding). The premium we receive from selling the calls serves to increase income and provide some downside protection. By owning SPY as opposed to an individual stock both single stock risk and sector risk are minimized. Market risk of course still exists but the premium received from the call provides some downside protection. What are some of the negatives to this strategy? One is that by selling the calls we cap potential returns past a certain point. The more income and downside protection we receive from the calls the less upside potential we have. We try to manage this negative by writing calls with different strike prices (price we agree to sell the stock for) and different expiration dates. Occasionally I am asked, "aren't options risky"? Options can be used to speculate and options can be used to hedge. Covered call writing is a hedging strategy that actually decreases risk versus just holding the underlying position.

The second strategy we prefer for long-term investors is purchasing Closed-End Funds (CEF) that invests in high dividend stocks. Like SPY, using CEFs eliminates single stock risk, but the big advantage in my opinion is the discount. For long-term investors, buying CEFs based on discounts and relative discounts provides two potential benefits. First, you are buying a portfolio of stocks at a discount to their actual value (net asset value). For long-term investors this should increase dividend yield. Second, when bought at a relative discount over time we hope to see a narrowing of the discount. CEFs must be purchased properly. Investors that purchase them as new issues, at a premium, at the wrong discount or simply because of a high dividend yield are typically making a poor decision. It is these inefficiencies that we believe we can capitalize on for our clients. One negative to Closed-End Funds is that discounts may widen especially in down markets, so CEF investors must be prepared to hold over the longer term. (see figure 2-3 on page 2 for two CEF examples that employ a covered call strategy)

Please contact us to learn more about how we can help to mitigate your investment risk.

## High Dividend Stocks (continued)

### SPDR S&P 500 (SPY)

Dividend Yield 2.15%

SPY top ten holdings as of 10/05/11

Name	Ticker	Weight	Dividend yield
Exxon Mobil Corp	XOM	3.46	2.60%
Apple Inc	AAPL	3.37	0.00%
International Business Mach	IBM	2.04	1.70%
Microsoft Corp	MSFT	1.85	3.20%
Chevron Corp New	CVX	1.79	3.40%
Procter & Gamble Co	PG	1.7	3.30%
Johnson & Johnson	JNJ	1.67	3.70%
AT&T Inc	T	1.64	6.10%
General Electric Co	GE	1.54	4.00%
Coca Cola Co	KO	1.46	2.90%

### Figure 1— SPDR S&P 500 ETF

The SPDR S&P 500 ETF is a fund that, before expenses, generally corresponds to the price and yield performance of the S&P 500 Index. Its approach is designed to provide portfolios with low portfolio turnover, accurate tracking, and lower costs.

### Eaton Vance Tax-Managed Buy-Write Opportunities Fund (ETV)

Current Discount 13.33%

52wk average discount 8.61%

Dividend Yield\* 12.07%

\*a portion of the yield may be return of capital

ETV top ten holdings as of 7/31/11

Name	Ticker	Weight	Dividend yield
Apple, Inc.	AAPL	27.88%	0.00%
Microsoft Corporation	MSFT	16.83%	3.20%
Google, Inc.	GOOG	11.59%	0.00%
Oracle Corporation	ORCL	10.74%	0.80%
Qualcomm, Inc.	QCOM	8.67%	1.70%
Intel Corp	INTC	8.58%	4.00%
Exxon Mobil Corporation	XOM	7.00%	2.60%
Amazon.com Inc	AMZN	6.76%	0.00%
Cisco Systems Inc	CSCO	6.34%	1.50%
Comcast Corp A	CMCSA	4.29%	2.10%

### Figure 2— Eaton Vance Tax-Managed Buy-Write Opportunities Fund

Primary investment objective is to provide current income and gains. It seeks to minimize and defer shareholder federal tax income. ETV consists of owning a diversified portfolio of common stock in 2 segments. First seeks to exceed the total return performance of the S&P 500 Index and sell S&P 500 call options on a continuous basis and the second seeks to exceed the total return of the NASDAQ -100 Index and sell NASDAQ-100 call options also.

### Nuveen Equity Premium Opportunity Fund (JSN)

Current Discount 12.67%

52wk average discount 6.48%

Dividend Yield\* 10.80%

\*a portion of the yield may be return of capital

JSN top ten holdings as of 6/30/11

Name	Ticker	Weight	Dividend yield
Apple, Inc.	AAPL	6.28%	0.00%
Cash Equivalent	N/A	5.07%	
Exxon Mobil Corporation	XOM	3.27%	2.60%
Microsoft Corporation	MSFT	2.83%	3.20%
Oracle Corporation	ORCL	2.21%	0.80%
Qualcomm, Inc.	QCOM	2.09%	1.70%
Google, Inc.	GOOG	1.97%	0.00%
AT&T Inc	T	1.82%	6.10%
Chevron Corp	CVX	1.61%	3.40%
Pfizer Inc	PFE	1.52%	4.50%

### Figure 3— Nuveen Equity Premium Opportunity Fund

This fund invests in a diversified equity portfolio to replicate the price movement of 75%/25% combination of the S&P 500 Index and the NASDAQ-100, respectively. It also uses the option strategy to sell call options on the S&P 500 and NASDAQ-100, to seek moderate volatility.

\* Both ETV and JSN employ a managed distribution policy

## One Way We Combat Market Volatility

Recently we invested in two new structured investments with the S&P500 as the underlying index. Both provided a downside buffer, one with a 20% buffer and one with a 15% buffer. Both investments double the return of the S&P500 to a cap, with the cap on the 20% buffer being 13.80% and the cap on the 15% buffer being 17.10%.

While many of the positives to these investments are obvious, what are some of the negatives? The cap (maximum return) - no matter what the S&P500 returns the maximum return of the investment is capped. Dividends are not included; the S&P 500 dividend yield is approximately 2%. The 20% buffer note is guaranteed by the Royal Bank of Canada and the 15% buffer is guaranteed by JP Morgan and is subject to their credit risk. After the buffer, the loss is geared 1.25% for every 1% fall for the 20% buffer and 1.1765% for every 1% decline for the 15% buffer. Please refer to the charts below.

After weighing the positives and negative, we believe these to be prudent investments in the current market environment. Investing in structured notes is one way we take advantage of (using the current market volatility to our advantage) increased market volatility. Please see the charts below for hypothetical payout scenarios. Please call us with any questions about this investment or any investment you hold, or to schedule a meeting.

### 15% Buffer

Issuer: J.P. Morgan Chase  
S&P500 initial value: 1,151.06  
Pricing Date : September 28, 2011  
Buffer level: 15% (978.40)  
Maximum Return: 17.10%  
Maturity Date: October 31, 2012

Index Level	Index return	Note Return
1438.83	25%	17.10%
1381.27	20%	17.10%
1323.72	15%	17.10%
1266.17	10%	17.10%
1208.61	5%	10.00%
1151.06	0%	0.00%
1093.51	-5%	0.00%
1035.95	-10%	0.00%
978.40	-15%	0.00%
920.85	-20%	-5.88%
863.30	-25%	-11.77%
805.74	-30%	-17.65%
748.19	-35%	-23.53%
690.64	-40%	-29.41%

### 20% Buffer

Issuer: Royal Bank of Canada  
S&P500 initial value: 1,172.87  
Pricing Date : September 13, 2011  
Buffer level: 20% (938.30)  
Maximum Return: 13.80  
Maturity Date: October 18, 2012

Index Level	Index return	Note Return
1466.09	25%	13.80%
1407.44	20%	13.80%
1348.80	15%	13.80%
1290.16	10%	13.80%
1231.51	5%	10.00%
1172.87	0%	0.00%
1114.23	-5%	0.00%
1055.58	-10%	0.00%
996.94	-15%	0.00%
938.30	-20%	0.00%
879.65	-25%	-6.25%
821.01	-30%	-12.50%
762.37	-35%	-18.75%
703.72	-40%	-25.00%

## Thank You for your Referrals

We are fortunate to have clients refer friends and family to us to perform a "second look" on their investment portfolios. Often times, we find they do not understand the amount of risk they are exposed to and do not have a good, cost-effective way to hedge this risk. Some of these investments may be individual stocks, mutual funds and/or annuities. In these challenging economic times, we believe it is more important than ever to understand how you are positioned and what risks you are exposed to. If your investment portfolio fluctuates in lockstep with the daily movements of the stock market, this is usually a good indication that you do not have proper hedges in place.

We can help you and based on your risk profile, we may recommend the following:

- Inverse exchange-traded funds,
- Covered call writing,
- Downside-protected structured investments.

Please contact us if you would like to learn more about how we can help mitigate risk.



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Pictured is Justin and Stacey's daughter, Madelynn, enjoying her time at 5 months old.

## Blue Bell PWM in the news



“ There’s no free lunch out there, so you always need to take on some risk if you want some return, but we like the plain-vanilla products.”

-**Scott Miller, Jr.**, *Investment News: July 24, 2011*, on the simplicity or complexity of structured products.

“Make sure you understand how the product works and that you would be willing to buy the underlying investments.”

-**Scott Miller, Jr.**, *Investment News: July 24, 2011*, on making sure you understand structured investments’ key aspects.

## REMINDERS

- Required Minimum Distributions (RMDs) - Anyone 70 1/2 or older needs to take their RMD by **December 31, 2011**. 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.
- Reminder, it is important to review your named beneficiaries on your IRA, Pension, Annuity, 401(k), 403(b) or other retirement plan on an annual basis. Please notify us if you would like to update your beneficiaries information, to change your beneficiary or to check your named beneficiaries.
- Please contact Scott Jr. or Justin to schedule your account review, 610.825.3540

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Thank you for your continued support of our business through referrals of family and friends!