

BLUE BELL PRIVATE WEALTH MANAGEMENT

INSIDE THIS ISSUE:

The Options Bandwagon	2
Annuities	2
Objective Advice	2
IRAs	3
Discount (continued)	3
Our Client Advantage	4

Buying at a Discount

Hopefully you're not tired of reading my newsletters recommending closed-end funds, yet the advantages of buying quality management at a discount to net asset value (NAV) must continue to be stressed. You may even remember me asking "What is the main reason I recommend closed-end funds?" There are many advantages such as diversification, exchange traded, efficient portfolio management, lower expense ratios, ability to control purchase price by using limit orders, tender offers, rights

offerings, etc. Even with all these advantages, I only recommend closed-end funds when they trade **AT A DISCOUNT TO NET ASSET VALUE**.

The number one question I hear from clients is "Why do they trade at a discount?" There are many reasons, but the one I would like to discuss here is "misunderstood performance". Many closed-end fund holders become disillusioned with their funds because they initially purchased shares as new issues (the wrong time), not realizing they may be paying up to 7% in underwriting fees and

expenses. To put it another way, they are paying a premium to net asset value. We would never be tempted to buy newly issued closed-end funds. Even when shares are purchased at a discount, most, if not all brokerage statements I have ever seen do not give you enough information to judge your fund's performance. The reason is that most investors look at market price performance only and not their total return. The only reliable measurement tool to use is the total return, or purchase price minus the current price plus dividends plus capital gains (purchase (cont. 3)



ACCOUNT PROTECTION

Client assets custodied at Schwab are protected by the Securities Investor Protection Corporation (SIPC) up to \$500,000 (including \$100,000 for claims of cash). In addition, Schwab has secured excess SIPC protection from Lloyd's of London for up to \$150 million per customer, including up to \$1 million for cash. (This coverage does not protect against loss of market value and is subject to Schwab's aggregate limit of \$600 million).

Schwab Institutional Services

Our trading platform with Schwab Institutional is absolutely excellent. This, combined with our portfolio management system, frees up our time to better serve your investment needs. We find the back office at Schwab to be extremely efficient and have had much success in handling the needs of our clients. One area I am not thrilled about is the Schwab checking account, since they

do not list the recipient name of any checks written. If you plan to use Schwab checks, please be certain that your check register is complete and up to date. No copies of checks you write are returned to you, thus the need for accurate records on all checks which you write. Frankly speaking, I prefer my clients have a separate checking account at a bank of their choice.



Blue Bell Private Wealth Management

Jumping On The Options Bandwagon

As an option writer (seller of covered calls) since 1973, I have experienced all kinds of markets, and continue to feel option writing makes sense for conservative investors. A previous manager I worked with said on several occasions, "you will be left at the starting gate", speaking about option writing. This was in the years 2000 and 2001. He was not the only one to criticize



my approach to covered call writing. Last year however, their tune changed and they issued a 130 million dollar buy write security followed by three others thus far in 2005. Merrill Lynch also recently issued a 140 million dollar buy write note. These issues

occurred after an independent study concluded that over the past 16 years, covered call writing produced similar results to S&P 500 but with substantially less volatility. Others also jumped on the bandwagon and in 2004 and 2005, billions of dollars were raised in new covered call funds. Through September of this year, 19 new closed-end buy write funds were issued, raising over \$10 billion. An additional number of funds

are in the pipeline. In my opinion, this explosion of covered call writers creates an investment dilemma: where will the new option buyers come from? Naturally the new option sellers will cause option prices to fall, which for now, makes this investment style less attractive. While this is a short-term negative, our approach has allowed us to take advantage of the explosion in option related investment vehicles.

Annuities, Not What They Used To Be

In the 90's, it seemed that one newly created annuity product was better than the last. The insurance companies were competing for business and trying to "one up" the competition. The stock market crash which began in early 2000 changed all of this and, in my opinion, the newly created annuity contracts have far less advantages than their predecessors. Why you may ask? Annuity con-

tracts are issued by insurance companies, and when insurance companies have losses, they traditionally raise their rates or make their products less valuable. This is exactly what transpired in the annuity industry. I do not recommend most annuities being offered today and I need investors to make certain they understand all of the features being discussed at the time of purchase. Annuities purchased at

my previous employer are not held at that company but by the insurance companies themselves. They issue rather comprehensive statements covering your individual contracts. In the past, as a convenience to my clients, I had them listed on your monthly statements. None of the funds in these annuities are being held at any brokerage firms.

Giving Objective Advice



Blue Bell Private Wealth Management prides itself in putting the "odds in our clients' favor." Our primary interest is you; we "sit on the same side of the table" in all investment decisions. We have no ties to any other investment companies, which we believe is

critical in providing every client with objective financial advice. We do not receive commissions, 12B1 fees, trails, etc. We utilize a conservative, long-term asset allocation strategy that takes full advantage of all aspects of the market; attempting to reduce its vola-

tility while maintaining growth potential. For successful long-term performance and risk management, we create a well-diversified portfolio. Our clients know that our recommendations are based solely on what we believe is best for them.

Fall 2005

Individual Retirement Accounts: IRAs

Almost every wage earner is eligible for an IRA. Don't overlook IRA's as an investment vehicle of first choice. You may be surprised how many eligible investors do just that. In this issue, I will discuss my favorite IRA account, which is the Roth IRA. Roth IRA's are open to anyone who has income from compensation (or their spouse if joint filers) and have a modified adjusted gross income of \$150,000 or less (this is for joint filers.) If you are age 50 or older, you may contribute \$4500 this year. If you are

under age 50, you may each contribute \$4000 this year. An additional advantage of the Roth IRA is that regular contributions can be withdrawn at any age tax and penalty free. If you are below 59 1/2 your earnings, not your contributions, must be in the account for five years and only the earnings may not be withdrawn tax and penalty free except for disability, death, or first-time homebuyers. You are NOT required to withdraw funds when you reach the age of 70 1/2; in my opinion,

another huge advantage. Please call so you do not overlook the Roth IRA, or the other tax advantaged IRAs that are available to you. Remember you must have earned income. Roth IRA's are probably your smartest investment vehicle, even when you compare it to employer sponsored retirement accounts (401(k), 403(b), etc). The exception is if your employer matches your contributions. Remember almost everyone with income from compensation is eligible for some type of IRA.



Why Pay NAV? (cont.)

(Continued from Cover)
price + dividends + capital gains paid) – current price = net gain or loss.) The example I frequently use is as follows: If I recommend you purchase 1,000 shares of a closed-end fund at \$10 per share, your investment would equal \$10,000. Five years later, when you look at your monthly statement it may show your shares are only trading at \$5 or \$5,000 for your

1000 share investment. Would you feel this was a good recommendation? Naturally you might say “No, I'm down \$5,000.” But in this case, as with most brokerage statements, you don't have enough information to make a proper judgment. You see, in this hypothetical example, you may have received \$2,000 per year in dividends and capital gains which would total \$10,000 over your 5 year holding period. With

your current share value still at \$5,000 your total value would equal \$15,000 on a 10,000 investment (\$5,000 current market value and \$10,000 dividend and capital gains received). Sounds better, right? This is just one reason closed-end fund shares may sell at discount to NAV. In future newsletters I will explain why closed-end funds selling at discount continue to be my favorite managed investment.

Important News

We will be mailing the 2005 Realized Gain and Loss report by February 1st. It is very important that you provide your tax preparer a copy of this report along with the 1099 forms provided by Schwab. This report is also available when you log into this site. **PLEASE NOTE:** for those of you that had accounts at Morgan Stanley during 2005, you will be receiving 1099s and an annual report from them.

2005 IRA contributions must be made by April 15th, 2006. If you have not already done so, you still have time. Traditional and Roth IRA contribution limits for 2005 are \$4,000 if you are under age 50 and \$4,500 if you are age 50 or older. Please remember to send in your contributions today.

Blue Bell Private Wealth
Management

Blue Bell Private Wealth
Management
Blue Bell Executive Campus
Suite 305
470 Norristown Rd.
Blue Bell, PA 19422
Phone: 610.825.3540
Fax: 610.825.9690
Info: www.bluebellpwm.com

Contact Us Directly:
Scott Sr.: j.smiller@bluebellpwm.com
Scott Jr.: smiller@bluebellpwm.com
Justin: jcapetola@bluebellpwm.com
Joe: jfrancks@bluebellpwm.com
Sheila: skane@bluebellpwm.com

The opinions and analyses expressed in this newsletter are based on Blue Bell Private Wealth Management, LLC's research and professional experience, and are expressed as of the date of our mailing of this newsletter. Certain information expressed represents an assessment at a specific point in time and is not intended to be a forecast or guarantee of future results, nor is it intended to speak to any future periods. Blue Bell makes no warranty or representation, express or implied, nor does Blue Bell accept any liability, with respect to the information and data set forth herein, and Blue Bell specifically disclaims any duty to update any of the information and data contained in this newsletter. The information and data in this newsletter



Our Client Advantage

Blue Bell Private Wealth Management offers a unique combination of investment vehicles, technology, objectivity, performance and the highest commitment to service. Our firm prides itself on putting the “odds in our client’s favor.” Our primary interest is you; we “sit

on the same side of the table” in all investment decisions. We have no ties to any other investment companies, which we believe is critical in providing every client with objective financial advice. We utilize a conservative, long-term asset allocation strategy that takes full advantage of all aspects of the fi-

ancial market. We believe this approach reduces the portfolio volatility. For successful long-term performance and risk management, we create a well-diversified portfolio. Our clients know that our recommendations are based solely on what we believe is best for them.



We're on the Web!
www.bluebellpwm.com