

# Blue Bell Private Wealth Management



Spring Newsletter

SPRING EDITION

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March 26-27, 2007 - New York City

The 3rd Annual

*Structured Products Association Conference*

**INVITED OR CONFIRMED TO SPEAK:**

Charlie O'Flaherty, ABNAMRO (USA)  
 Michael G. Clark, CREDIT SUISSE  
 Mark Drouse, RAYMOND JAMES  
 Steve Houston, MERRILL LYNCH  
 Tim Dowling, DEUTSCHE BANK  
 Jeff Kleeman, BNP PARIBAS  
 Barry Finkelstein, UBS SECURITIES  
 Jason Manske, CREDIT SUISSE  
 David Morfitt, RBS GREENWICH CAPITAL  
 Tim Eisenhauer, STANDARD & POOR'S  
 JP Armento, MORGAN STANLEY  
 Serge Troyanovsky, BNP PARIBAS  
 Lew Steinberg, UBS  
**J. Scott Miller, BLUE BELL PWM**  
 Matt Ginsburg, WELLS FARGO SECURITIES  
 Joel Telpner, MAYER BROWN ROWE & MAW  
 Matt Moran, CBOE  
 Chris Warren, DWS SCUDDER  
 Ray Marquette, JP MORGAN SOLUTIONS  
 Bill Meyers, NUVEEN  
 Rob Waldner, FRANKLIN TEMPLETON  
 Robert Benson, ARETE CONSULTING  
 Bill Shelton, GOLDMAN SACHS

Phillippe El-Amer, BARCLAYS CAPITAL  
 Anna Pinedo, MORRISON & FOERSTER  
 Joe Burris, STRUCTUREDRETAILPRODUCTS.COM  
 Gale Herzog, UBS  
 Susan Walter, NYSE  
 Andrew Awas, GREENWICH ASSOCIATES  
 Scott Mitchell, JP MORGAN  
 Keith Desrochers, MORGAN STANLEY  
 John Tesser, LaSALLE BANK  
 Steve Braverman, MyCFO/HARRIS BANK  
 Rhian Horgan, JPMORGAN PRIVATE BANK  
 Karen Fang, GOLDMAN SACHS  
 Jason Wilson, SG AMERICAS  
 Peter Moses, MACQUARIE BANK  
 Winston Ma, JPMORGAN SECURITIES  
 Paul Lyon, STRUCTURED PRODUCTS MAGAZINE  
 Marilyn Selby Okoshi, KATTEN MUCHIN  
 Johan Grootaert, DEUTSCHE BANK AG  
 Andrew Scherr, FORTIS (USA)  
 Tom Humphreys, MORRISON & FOERSTER  
 Susan Grbic, CITIGROUP  
 Joel Telpner, MAYER BROWN & PLATT  
 Robert J. Dilworth, BANK OF AMERICA  
 Joseph A. Inzerillo, BARCLAYS BANK PLC

As one of the foremost authorities on Structured Products, Blue Bell Private Wealth Management is excited to announce that Scott was invited to speak at the Structured Products Association's third annual event in New York City at the end of March. This is the longest running Structured Products Conference in the Americas, and in previous years has been at full capacity, with a who's-who of the Structured Products industry. Featuring expert speakers from the world's top issuing and distribution firms, this event brings together the 30 Structured Products issuers with the top distributors in the Americas. It is an honor for Scott to be chosen as a speaker and we will recap the conference in our summer newsletter.

[www.spa-2007.com](http://www.spa-2007.com)

**"In the world of Structured Products it needn't be an either/or proposition; characteristics of both notes can be blended into a single instrument."**

*Bloomberg Wealth Manager Magazine speaks about Blue Bell Private Wealth Management - November 2006*

## CONSOLIDATING YOUR ACCOUNTS

In our winter newsletter, we wrote about the advantages of consolidating your IRAs and other retirement plans, such as 401Ks from a previous employer with your Blue Bell Private Wealth Management account. When I received the February issue of Consumer Reports, I was surprised to see a similar recommendation. **Consumer Reports stated "Consolidate investment accounts at one company.** You'll receive three rewards. First, you won't have to open, read, and file as many statements. Second, keeping an eye on your portfolio's performance

will be easier. Finally, you'll save some money because, generally, the more you keep at a single company, the less you'll pay in custodial fees and other expenses." "10 Easy Steps to the Simple (Financial) Life." Consumer Reports February 2007: 16. When it comes to making your investment life easier, employing a specific investment process, lowering your costs (most IRAs have maintenance fees), and receiving personal attention, consolidating your retirement plans **JUST MAKES SENSE.**

### Inside this issue:

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Please remember that past performance may not be indicative of future results. Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product made reference to directly or indirectly in this newsletter (article), will be profitable, equal any corresponding indicated historical performance level(s), or be suitable for your portfolio. Due to various factors, including changing market conditions, the content may no longer be reflective of current opinions or positions. Moreover, you should not assume that any discussion or information contained in this newsletter (article) serves as the receipt of, or as a substitute for, personalized investment advice from Blue Bell Private Wealth Management LLC To the extent that a reader has any questions regarding the applicability of any specific issue discussed above to his/her individual situation, he/she is encouraged to consult with the professional advisor of his/her choosing. A copy of our current written disclosure statement discussing our advisory services and fees is available for review upon request.



# CAUTION



You may have heard of these investments. Caution is always important.

## 1. Reverse Mortgages

I have seen increased publicity on reverse mortgages, a product which allows homeowners over 62 years old to tap into their homes value without selling their house or having to make home equity loan payments. **CAUTION:** If you are approached to take a reverse mortgage to invest in an annuity, life insurance, or really any other investment, use extreme caution, as the benefits may be greater for the presenter than they are to you. This is not to say that reverse mortgages are not acceptable in certain circumstances, but the funds should not be used to make another investment.

## 2. Life Settlements

This is a rather new "hard sell product" where you sell your life insurance policy for more than the policy's cash value, but less than fair value. If you truly no longer need life insurance, it is true you can generate more money here than cashing in the policy (this most likely means you purchased expensive insurance years ago.) **CAUTION:** If you will ever require life insurance in the future, it will surely be more expensive or unavailable. Also, you will be taxed on any proceeds received, yet your beneficiary would normally receive these proceeds tax free. Finally, any charity or heirs will naturally be excluded from the benefits of these policies.

## 3. Indexed Annuities

Indexing has become increasingly popular as statistics show most active managers under perform the index on a long term basis. Index annuities are mutual-fund-like sub accounts, wrapped into

an insurance contract. **CAUTION:** The so-called tax advantages, in my opinion, are only appropriate for a very small percentage of investors and you may be better served using other index investments, such as ETFs and Structured Investments. Most, if not all index annuities limit your annual gains. For example, the index may be up 15%, but you are limited to a return of 7%. Most index annuities have rather steep fees and expenses and usually very long-term lock up periods, many times 10 years or longer. If you want your money available before the lockup period expires the "back-end" fees can exceed 10% of the annuity value in some cases. Some annuities indeed have a place in certain investors' portfolios, but it is critical that you know all of the negatives as well as the positives of index investing. In my opinion, the negatives more often far outweigh the positives for the purchase of these contracts. Finally, withdrawing money can be very tricky as many annuity companies do not give you any of the profits which would have been earned when money is taken out before the valuation date, even if it is only one day away.

## 4. Living Trusts

While living trusts are favorable for many investors, they may also have some disadvantages. As always, it is very important you know the negatives as well as the positives. Advertised advantages that they avoid probing are true, but the costs for "boiler plate plans" may be excessive for most investors and their probate advantages unneeded for many others. **CAUTION:** Many promoters of living trusts are not lawyers and the plans are not individualized, thus they may not address your specific needs. The sellers all too often are simply after a fee (usually \$1500 or more), often thru "free meal seminars" or scare tactics. In many cases, a well written will by an estate attorney will better solve you individual needs, and many times at a better total cost to you.

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## Not All Dividends are Created Equal

Over the years, we have bought and sold investments for a variety of reasons. We may sell a position when you need money and/or we feel the investment is no longer attractive. Our principles for buying are usually pretty similar, since we tend to be value investors. Investments trading at a discount to intrinsic value (actual value of the investment) or closed-end funds trading at a discount to their Net Asset Value (NAV) are usually our favorites. One thing we don't worry about when purchasing or selling a fund (open or closed-end) is what is the dividend payout.

When mutual funds pay a dividend, the Net Asset Value (NAV) of the fund falls by the amount of that dividend, leaving the fund holder with a less valuable share. For example, Eaton Vance recently issued a closed-end fund offering (symbol EXG) at

\$20 per share, and it happens to be the largest closed-end fund IPO in history. Many brokers marketed this fund to their clients specifically because the goal of the fund is to be a "dividend-hunting fund" that will potentially yield 9%. We feel these are false pretenses on which to buy this investment for two reasons. First, the fund fell by more than 5% as compared to its Net Asset Value after the issue (as most closed-end funds do), so those who bought it at \$20 have a share worth less than \$19. Second, the managed dividend distribution is irrelevant in our mind because you are essentially getting your money back, since the NAV will decrease the same amount as the dividend. When a fund continues to pay their shareholders with its underlying assets, eventually it will either have to cut the dividend completely or it will pay the dividend until the NAV goes to zero, put-

ting the fund out of business. Obviously, if 9% is paid but not earned, EXG will be forced to cut its dividend and the people that were put in the fund for the dividend yield alone may be sold on the next "hot product" offered by their broker. Some investors like the dividend because it is money the company is paying you, yet not necessarily money the company has earned. Therefore, the dividend should not be looked at as a reason to hold onto a fund if it is not an attractive investment at the time (possibly if the discount has narrowed).

If you are ever undecided on whether or not to buy or sell an investment, reconsider the importance of the dividend for your situation, and please NEVER buy Closed-End Funds as new issues. The dividend should not be the most important part of the decision to buy or sell a fund.

## TIME TO CELEBRATE OR RUN FOR COVER?

**Note:** The following article was written February 26, 2007, the day before the recent market correction where the Dow fell 3.29%, the NASDAQ fell 3.86%, and the S&P 500 fell 3.47% in one day. We feel this article is still appropriate.

It is no secret the stock markets have been strong since the 2006 summer rally began. So let's celebrate our success, but be mindful stock markets don't go straight up. As a colleague once said, "One thing to fear is when there's not enough fear." Some areas of potential concern are inflation, sub-prime mortgages, housing, a hard landing of our economy, recession, oil prices, the trade deficit, consumer spending, tax increases, wage inflation, healthcare costs, not to mention terrorism. These sound depressing but they are always areas of concern! In the mean time, the stock market continues to be strong.

Our long-term value approach to investing has not changed. We continue to be "bargain hunters," taking risk/reward and downside protection into account for each investment we make and each portfolio we manage. History convinces me this is the correct way to invest. We have all

heard the stories of certain people getting "rich" in a particular stock. The stories we should pay attention to which are not heard as often but certainly occur are from those who try to get rich, but end up poor. The tried and true long-term asset allocated conservative portfolio allows us to sleep at night, even though we spend every day listening to the "bears" on each of the potential concerns listed above. I commend our clients who did not become overly pessimistic when the S&P 500 sold off almost 7.75% in the spring of 2006 and they stayed invested. I congratulate even more those clients who have not become overly aggressive during the current 8 month rally. **We all know a correction is coming, we just don't know when.** Some statistics may help put the current market into perspective. As of this writing (February 26, 2007), the Dow is 7.75% above the high reached Jan 2000, of 11,723. The S&P 500 is 5.08% below the March 2000 high of 1527. The NASDAQ is still and amazing 51.19% below the all time high of 5132 reached March 10, 2000. The message: stay the course, but call with any concerns you have regarding your investment profile.

### How Can Competitive Bidding Enhance your Structured Investment?

Why pay more for less? This might sound like a famous retail quote, but the same philosophy may be applied to Structured Investments. We recognize the competitive bidding approach minimizes any fees associated with Structured Investments. When the embedded fees and costs are minimized, we are able to provide our clients with "better than market" terms (i.e. a higher cap than available on most new issue retail products). Recently, through a competitive bidding process, a Structured Investment was issued to our clients guaranteeing at maturity (13-months), double the upside performance of the S&P 500 Index to a

maximum cap of 16.80%. At the same time, a retail brokerage firm issued a similar Structured Investment to its clients which can be purchased or sold on the exchange. It guarantees at maturity (13-months), double the upside return of the S&P 500 Index up to a maximum cap of 12.00%. Now to be fair, both investments are going to produce the same returns if the market increases by no more than 6%. However, if the underlying index increases by more than 6%, our clients receive an advantage, which could provide a 40% greater return over the retail brokerage clients.

Since Structured Investments are being issued continuously by numerous sources, the fees can range widely from one investment to another. These investments are meant to add value to an investor's portfolio, however, when purchased as a new issue from the wrong distributor (i.e. retail brokerage firms, insurance companies, small banks), the embedded steep fees will only benefit the issuer. With competitive bidding, Blue Bell PWM clients have a major advantage over other investors of Structured Investments.

	<i>Competitive Bidding Offering</i>	<i>Publicly Traded New Issue</i>
<i>Underlying Index</i>	S&P 500 Index	S&P 500 Index
<i>Upside Multiplier</i>	Double (2x)	Double (2x)
<i>Note Length</i>	13-mos	13-mos
<i>Downside</i>	1:1	1:1
<i>Maximum Return</i>	16.80%	12.00%
<i>Annualized Yield</i>	15.51%	11.08%

*“As fee-only advisors, we put the odds in your favor.”*

## SPRING NEWSLETTER

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*\* Visit us on the Web! \**

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Check out all of the new and updated features and information being provided. We are constantly updating the website to provide the best online experience for our clients.

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For the last 32 years, interns have made a large contribution to Scott's business. Over the years, he has worked with over 300 interns from all over the world as far as Japan, Russia and Germany. Many interns come from local colleges and universities, including the University of Pennsylvania, Villanova University, St Joseph's University, The Philadelphia College, The Pennsylvania State University (Scott's alma matter) as well as many others. Blue Bell Private Wealth Management takes pride in continuing this tradition by offering internships to young eager students looking to gain experience in the business world. We find this relationship to be mutually beneficial, as we offer ex-

perience and knowledge while we gain by having insightful young enthusiastic students add new ideas and approaches, especially when it comes to new uses for the latest technology. As a mentor, Scott seems to make a great difference in these young energetic men and women. It is a great joy to watch our interns move to positions of responsibility in the business world. There are some great stories about students who appear on TV, participate in the Olympics, become presidents of companies, and have careers as successful financial advisors and investors. It is also a great pleasure to have many former interns become full time employees with Blue Bell Private Wealth Management.



**Above from Left: Pat Runyen, Sheila Kane, Kristin Galtieri, Joseph Francks, Jon Sobotkin**  
**Bottom from Left: Justin Capetola, J Scott Miller Sr., Scott Miller Jr.**