



Blue Bell Private Wealth Management

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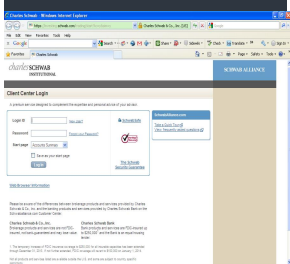
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Volatility

As we reflect on the market's performance in May and June, a few key statistics stand out. The Dow Jones Industrial Average fell 7.9% in May, making it the worst May performance for the Dow Jones since 1940. The S&P 500 fared even worse, losing 8.34%. The slide continued in June where the S&P 500 fell another 5.20%. The month ended with the Dow Jones falling for 7 straight days, the longest slide since October 2008, and losing 3.55% for the month. Volatility is certainly back.

In the equity markets, the first four months of 2010 were marked by low volatility and positive markets in which the S&P500 saw a gain of 6.8%. Nervous investors who abandoned the equity markets near the 2009 lows gained the confidence to at least dip their toes back into equities. A May 4th CBS MarketWatch article titled "Mutual-fund inflows on record pace" was further evidence that previously skittish investors had returned, although most likely half heartedly. What is obvious is that investors who trade in and out of the market based on their confidence rarely time their trades correctly. What can an investor do? Our answer is hedging.

The volatility that occurred during the month of May and June highlights the importance of hedging. Our hedging techniques, specifically, the use of options, inverse ETFs and structured products, proved especially important. Option premiums offered partial downside protection as the market fell, while providing the flexibility to reassess our market view. Even after the pull-back during the last two months, none of the newly issued structured products breached their initial 10% buffer level and are still providing partial downside protection. While hedging is not always necessary, it is impossible to know when it is needed.

Why did the market fall?

May

The primary cause for the market falling in May is the events that took place in Europe. Investors panicked when news of economic trouble came out of the Eurozone, resulting in increased volatility. Greece's debt was downgraded to junk status and it was bailed out with \$1 trillion raised from the IMF and regional governments. Finally, the month of May ended with the downgrading of Spain's debt by Fitch Ratings to AA+ from AAA, dropping markets another 1% on the last trading day. Along with affecting the confidence of investors, news from Europe also damaged bank stocks. American banks hold a large position in the sovereign debt of some Eurozone nations and of banks in those nations. Furthermore, fears that Congress will pass a financial reform bill that will limit lucrative trading practices hurt financial stocks even more.

By the end of May, much of the confidence that was so evident in the beginning of the month had been lost. U.S. mutual funds experienced a net outflow, meaning that investors pulled more money out of mutual funds than they put in. On the other hand, gold registered inflows. All of this points to investors wanting to avoid risk and invest in more stable investments.

June

The key reason for the markets being negative in June is poor job data. As fears of European debt shifted to fears of a US economic slowdown, job statistics pushed markets down even more. While the jobless rate decreased slightly from 9.7% in May to 9.5% in June, the lower unemployment rate was simply due to an increase of 652,000 discouraged workers who are not counted in unemployment labor statistics. Jobless claims increased by 472,000. The Consumer Confidence Index also contributed to the poor market performance, falling almost 10 points in June from 62.7 to 52.9. This is the biggest drop since February; the index had previously risen for the past three months.

Several more important pieces of economic data were released recently, explaining much of the market movements in the past few months. Home prices in April rose for the first time in 7 months due to government tax credits. However, the overall housing outlook is extremely gloomy as these temporary incentives have expired. This outlook was confirmed as the Commerce Department reported that the sales of new homes plummeted in May, falling 33% to the lowest level on record. The Commerce Department also released statistics on consumer spending, which were slightly less foreboding than the housing data. Consumer spending rose in 0.2% in May after no change in April. However, this is coupled with a 0.4% increase in personal income, indicating that consumers are choosing to save rather than spend.

In summary, we continue to believe that a proactive approach of option writing, structured investments, closed-end funds, and ETFs is the best approach for the future. As always, to schedule a meeting or if we can answer any questions, please call 610-825-3540.

Required Minimum Distributions (RMDs) are Back!



After reaching age 70 1/2, owners of traditional IRAs must take annual withdrawals of specified amounts and pay the related federal and state income taxes. Remember, these RMD rules do not apply to owners of Roth IRAs. Beneficiaries of inherited traditional and Roth IRAs fall under a different set of RMD rules. The rules governing RMDs were suspended last year to give IRAs an opportunity to recover from the 2008 stock market meltdown. However, the one-year reprieve from RMDs is over and here is what you need to know:

If You're an IRA Owner Who Turned 70 1/2 in 2009

- Since there was no distribution required for 2009, there was nothing you had to do. From now on, you must take your RMD by the end of each calendar year.

If You're an IRA Owner Who Turned 70 1/2 before 2009

- You will continue to take your RMD in 2010 just as you have done in previous years, except for last year. You must take your RMD for the 2010 tax year by no

later than Dec. 31, 2010 and so on each year after.

If You're an IRA Owner Who Will Turn 70 1/2 in 2010

- You must take your initial RMD, for the 2010 tax year, by April 1, 2011. In year 2011, you must take that distribution by year's end and so on. However, you have the option to take your initial distribution by the end of this year and then continue to take them by the end of each ensuing calendar year. This may be a smart move for tax purposes as tax rates will probably be higher next year.

If You're a Non-Spouse Beneficiary of an Inherited IRA

- As mentioned above, individuals who inherit traditional or Roth IRAs fall under a special set of RMD rules. They are complicated but there are two important things to know right now.

1. If you inherited a traditional IRA from someone who died last year or this year and who was not your spouse, you might be required to take a withdrawal by the end of this year.
2. If you inherited a Roth IRA from

someone who died last year and who was not your spouse, you will usually be required to take a withdrawal by the end of this year.

If you inherited one from someone who dies this year, you will usually be required to take a withdrawal by the end of 2011.

If You Inherit Your Spouse's IRA

- We usually advise most individuals to roll over the inherited IRA balance into an IRA that's treated as their own account. By doing so, they can follow the more favorable RMD rules for IRA owners rather than the less favorable rules for beneficiaries. With an inherited traditional IRA, you may have to take a required withdrawal by the end of this year. If you have an inherited Roth IRA, you would roll the balance into your own Roth account as this account will be exempt from the required withdrawal rules for as long as you live.

As in years past, we will handle taking your RMD. If you have any IRAs held outside of Charles Schwab, please contact us to discuss including this into the RMD calculation.

The Time Decay of Options

The time decay of an option refers to the loss in value of an option as it approaches its expiration date. Options are a wasting asset, meaning that they will lose value as time passes. This is because as an option moves closer to expiration, its chances of being profitable decrease every day.

An option is a financial instrument that gives its holder the right, but not the obligation to buy (call option) or sell (put option) an asset at a certain price, called the strike price. For example, Trader A could buy a call contract to buy stock X from Trader B at \$50 a share. The current market price is \$45 a share and Trader A pays a premium of \$5 a share to Trader B for the option. If, before the option expires, the market price of stock X rises to \$60 a share, then Trader A can profit by buying stock X from Trader B at \$50 a share and selling it at \$60 a share on the

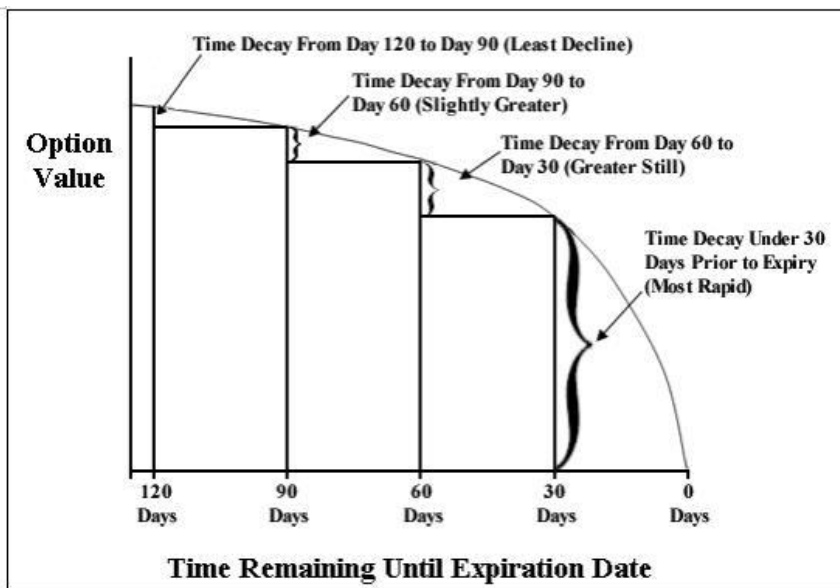
market. This option is said to be "in the money". However, if stock X falls to \$40 a share on the market, Trader A would choose not to exercise the option and loses the premium that he paid to Trader B. This option is said to be "out of the money".

The reason that options lose value as time passes is that predicting stock prices becomes easier each day. An investor would have a much greater chance predicting what IBM's market price will be tomorrow than what it will be in two weeks. Therefore, if an option is still out of the money as it approaches its expiration date, the probability that it will become in the money decreases with every day that it is still in out of the money, resulting in a decrease in value. This decrease in value is exponential meaning that the decline accelerates. This phenomenon is illustrated below.

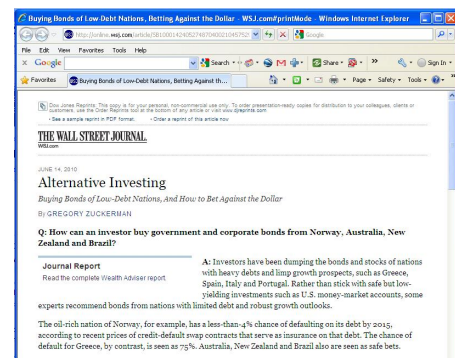
Mathematically, options time decay can be illustrated

through theta, a measure of the sensitivity of the value of the option to the passage of time. Theta is the derivative of an options value by time. This is the time decay rate, so theta is a negative value. As time passes, theta decreases (becomes more negative), so exponential decay occurs.

Options time decay has several implications for buyers and sellers. An option buyer must expect to lose a portion of the price of the option as time passes; therefore, he or she must hope that the underlying security moves far enough in the correct direction in order to compensate for this loss. Time decay works in the option writer's favor as time goes by, so an option writer's primary concern is that the underlying price will move and create losses in excess of the amount gained from time decay. Ultimately, the time decay creates a natural, built-in, casino-like edge for an option seller that increases the likelihood that he/she will make a successful option trade.



Blue Bell PWM In the Wall Street Journal



Scott Miller was quoted in the June 14th edition of the Wall Street Journal, in the article "Alternative Investing - Buying Bonds of Low-Debt Nations, and How to Bet Against the Dollar"

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History of Closed-End Funds

Professionally managed closed-end funds are among the oldest types of investment companies in the U.S. The first was issued in 1893, more than 30 years prior to the first open-end mutual fund in the United States. The oldest-closed end fund currently in operation is the General American Investment Company (GAM) founded in 1927.

While closed-end funds have been around for over a century, they are still an extremely misunderstood investment. There are currently over 650 closed-end funds with assets in the \$250 billion range, yet most investors couldn't describe their advantages or disadvantages. Believe it or not, it is still possible to purchase shares of some of the finest money managers at discounts from Net Asset Value (NAV) of up to 15% or greater. Another way to look at this is you can buy \$100,000 of NAV for a cost of \$85,000 or less.

Some of the advantages of CEFs are:

- Potential to purchase shares at a discount from NAV
- Diversification, which helps spread market risk
- Professional management
- Yield advantage vs. open-end funds
- Efficient portfolio management (avoids hot money)
- Trade like stocks with the ability to enter limit orders and time purchases and sales
- Premier money managers
- Clear objectives
- Comparably lower expenses/economies of scale vs. many traditional open-end mutual funds
- Leverage potential
- Board of directors
- Special situations, such as rights offerings and tender offerings

Some disadvantages of CEFs include:

- Discounts may widen
- Use of leverage in a falling market
- Active management vs. index investing
- New issues sold at a premium
- Board of directors who may not keep stockholders' best interest in mind.
- Market risks - all investments involve risks with a chance of loss of principal
- Management fees
- Investing in the wrong objective i.e. fixed income, foreign growth value, at times when these investment styles may be out of favor

For more information, please call us.

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