

2006: A LOOK AHEAD

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Are You a Growth Investor or A Value Investor?

Though you have heard these terms repeatedly over the years, a quick review would be helpful. There is no generally accepted definition of growth and value stocks, however, the investment community does agree on some broad characteristics. Value managers look for stocks that have fallen out of favor with Wall Street - stocks of companies experiencing short-term problems but are expected to recover over the long-term, stocks in industries with reserved growth prospects and stocks that are undervalued by the market. These stocks are usually characterized by a low Price to Earnings ratio (P/E), a low Price to Book Value ratio (P/B), low Price to Cash Flow and high dividend yields. By contrast, growth managers look for stocks with accelerating earnings growth or accelerating sales growth. These stocks are usually characterized by a high Price to Earnings ratio (P/E), a high Price to Book



How Blue Bell Private Wealth Management Is Helping You Achieve Financial Success in 2006.

Value ratio (P/B), high Price to Cash Flow and low dividend yields.

Value oriented portfolios have outperformed growth portfolios for the past 6 years. As value investors at heart, we now believe the resurgence of growth stocks has begun. As many

of you know, we have expressed this opinion over the past 12 months and continue to believe that large cap growth will outperform large cap value for the foreseeable future.

(Cont. on pg. 3)

INFLATION: AN EYE ON INTEREST RATES

We have been projecting higher interest rates for the past few years. Last year, we were correct with short term rates increasing 14 times to the current fed fund rate of 4.47%. Naturally, we are still very cautious on bonds, even while many economists pre-

dict the interest rate increases are coming to an end. Our concern, however, especially when looking at the longer end of the market, is due to several forces on the economy and thus interest rates as well. The potential for long-term rates to rise

include: our ever increasing trade deficit, our budget deficit, rising energy prices, increasing commodity prices, high consumer debt, the predictions of a weakening dollar, a growing economy, and the potential for increased inflation.

Even if our fear of interest rate increases does not occur, the yield on long-term bonds (10 years plus) are at such low levels (the 30 year treasury is currently yielding 4.53%) that, in our opinion, an investment in long-term bonds is not an attractive one.

STOP PAYING MARKETING FEES!!!

The definition of a 12b-1 charge is a marketing fee levied on mutual fund shareholders to pay for advertising and distribution costs, as well as broker compensation.

How would you like it if your doctor, dentist, lawyer, accountant or other professional service providers imposed an extra fee over and above their charge for professional services simply to enhance their advertising and market their practice? This fee is exactly what the great majority of mutual fund investors in this country pay! The 12b-1 fees charged (and not seen unless you read the prospectus) by-load and many no-load funds are actually charged over and above their fee for managing your money. This fee is solely used to market and advertise their fund.

Outrageous in my opinion!

HOW SHOULD YOU BE JUDGING YOUR PERFORMANCE?

It is no secret that most mutual fund and brokerage firms' statements make it virtually impossible for you to calculate your investment performance. Possibly, this is because they do not want you to be able to quickly calculate your individual results. There are many important points you must consider notably, RISK vs. REWARD or Risk Adjusted Return. In the late 90's, many investors forgot about risk and boasted about their results. These same investors, in many cases, have lost more than they could ever imagine due to their unallocated asset ap-

proach. On the other side, some investors feel that the most risk they can take is in a bank CD. This, in my opinion, may be too conservative for many investors. While in certain circumstances, I strongly recommend CD's, especially for clients in their 90's, I feel the total return after considering inflation and taxes makes these investments unsatisfactory for most younger clients.

Our goal is to help you reduce unnecessary risk while providing very competitive returns. We always attempt to include your risk tolerance level in our investment decisions. We believe some of the

major benefits we provide for our clients come directly from our risk adjusted approach. As you know, we do not recommend mutual funds. Rather, we purchase closed-end funds and structured investments, only when trading at a discount from their net asset or liquidating value. Keep in mind, with the NASDAQ still down 55% from its March 10th, 2000 high as of 1/06, our conservative approach has produced exceptional risk-adjusted returns. For more information on risk reduction, please call Blue Bell Private Wealth Management to schedule an appointment.



IMPORTANT TAX INFORMATION

Since most of our clients had accounts at previous firms, 2005 taxes will require a bit more attention to detail. When you meet with your accountant, it is important to show your brokerage information from your previous firm and from your current custodian: Schwab Institutional. This is important as both companies will be reporting taxable transactions. We have recently provided

you with a gain/loss tax statement which should greatly benefit you in preparing your taxes. If you have taken any distributions from tax deferred annuities, you will receive a separate statement from that financial institution, which also must be listed on your tax statement. In the past, we had the name, address, and phone number of your accountant. Unfortunately, this

information was not transferred from Morgan Stanley and we ask that you please call us with this information. This will allow us to update our database and recognize your accountants' name so we may answer any questions he or she may have. As in past years, we encourage you to lessen your burden by having us speak directly to your professional tax preparer.

STRETCHING

One of our goals has always been to help you reduce your taxes. In past newsletters, we discussed one area in particular, which provides substantial benefits, yet many times is overlooked: the STRETCH IRA. Naturally, you understand the benefits of saving for retirement through an IRA and once you reach age 70 ½, you are required to take a minimum annual distribution. While many are familiar with these aspects of an IRA, they are not so up to date with the rules for their beneficiaries. Substantial advantages may be achieved for many

investors who can afford to do so by naming children or even grandchildren as their IRA beneficiary. As a non-spouse, this allows the beneficiaries of an inherited, traditional IRA the advantages of removing the money without penalty in a lump-sum or STRETCHING the benefits over their lifetime. This flexibility provides a legacy, since your children or grandchildren, as beneficiaries, will be able to continue tax-deferred growth over a substantial number of years. For more information, please contact us at 610-825-3540.



AVOIDING EXCESS CHARGES

Over the past few years, the large, publicly traded brokerage firms have quietly put many extra and unnecessary fees in place, which you can and should avoid. One of these fees is the "privilege" of having an IRA account at their institution. These fees are very easy to avoid by simply combining your IRA account

under one advisor with one firm. We do not charge IRA custodial fees, yet we provide management without commission conflicts, with the sole purpose of keeping your best interests in mind. Most investors who reach the age of 70 ½ understand the benefits of having all of their IRA's in one location; this makes

taking their required minimum distribution easier and more efficient. If you would like to transfer an old IRA or 401(k) from a previous employer, the process is rather simple and we will be most happy to assist you. Please contact Justin or Joe with any IRA transfer questions you may have.

GROWTH VS. VALUE (CONTINUED)

(Continued from Cover)

As conservative investors, we are not suggesting a major shift in our risk profile, but we believe overweighting growth in this market will produce superior results. There are several reasons for advising to overweight growth, not the least of which is history. Historically, growth stocks do well in the late stages of an economic

recovery, which we believe we are in. Another reason for recommending growth is the cyclical nature of the performance of growth vs. value. Over the long-term, both styles perform similarly, however, with the 6 year underperformance of growth, it now seems under-priced compared to value. There are many growth companies which are beginning to look

like value by raising their dividends as well as their percentage payment rate. To sum things up and put it more clearly: our belief is that large cap growth companies offer a better value, thus conservative investors can currently afford to have a portion of their portfolio allocated to this asset class.

15 Things Not to Buy

1. A, B, or C Share Mutual funds
2. no load mutual funds with 12B1 charges
3. most tax-deferred annuities
4. all immediate annuities
5. non-liquid limited partnerships
6. new issue closed-end funds
7. closed-end funds selling at a premium
8. More insurance than you really need
9. new issue callable preferred stocks
10. callable preferred stocks selling at a discount if you believe interest rates will rise
11. gold or silver bouillon
12. Whole life insurance
13. 20 or 30 year bonds selling at a discount (if you believe interest rates will rise)
14. penny stocks
15. unit investment trusts with commission charges

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PREPARING FOR RETIREMENT

Are you prepared for your Retirement?

Did you know that you qualify for a **Roth IRA** at any age as long as you are a single individual with an earned income of less than \$95,000 per year, or if you are married and you and your spouse have a combined income of less than \$150,000 per year?

You qualify for a **Traditional IRA** if you have earned income and are under 70½ years old. Contributions may not always be deductible if you or your spouse (if married filing jointly) are active participants in an Employer Spon-

sored Retirement Plan. If you are not an active participant (and neither is your spouse if you are married, filing jointly) in an employer-sponsored plan, you may fully deduct your contribution at any level of income.

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.

Be sure to give us a call to discuss your options.



A MESSAGE FROM SCOTT

Recently, one of my long-term clients called and referred his sister to me. He explained she is looking for financial advisor, not a stock broker. She apparently has experienced a number of problems with stock brokers from the largest brokerage firms. Naturally, since I have been in the investment business for the last 34 years, I understand that finding the right financial advisor is extremely difficult, yet, extremely important. You may be thinking: what's the difference between a fee-only advisor and a commission compensated stock or mutual fund broker? In explaining the difference between the fee-only advisor and commission compensated broker, it must be understood that there are many fine, client-oriented advisors with both types of approach. As a matter of fact, it was not that many years ago that finding a fee-only advisor at a brokerage firm was nearly impossible. Thankfully, things seem to be changing in the brokerage industry. This change, however, is much too slow in coming for most investors who are seeking objective advice. Fee-only advisors, such as Blue Bell Private Wealth Management, naturally must always have the best interests of their clients in mind. Why? Simply put, since we are only compensated on fees, we have no conflict of any kind. We have no compensation benefit from purchase or sales of securities, no A or B or C share mutual fund commissions, no 12b-1 fees, no trail commissions, no unit trust fees, no hidden charges. We earn no more (or less) from activity in our clients account. On the other hand, brokers who work on commission have much to gain from activity in their clients' accounts, or by selling high commission vehicles. Good brokers, who have the best interest of their clients in mind and only do what they believe is right, naturally deserve to make a living. Those brokers who are looking out for themselves, in my opinion, should not even be in this business. Unfortunately, the practice of selling unit trusts, load mutual funds, limited partnership, new issue closed end funds, certain annuities and other expensive programs like load mutual funds in an asset allocation fee-based account, still seem to be the popular choice for many commission oriented brokers. Since many of these fees and charges are very difficult for the average investor to track, the temptation to use these products is great. Everyone deserves to make a living, but since you, the client, are paying the charges, you deserve to know you are getting unbiased information, which is what you are paying for. The difference we offer as independent advisors is that, unlike large public financial institutions that look at their overall profit and many times pressure their brokers to sell their own products, we have no proprietary products; we have no such relationship, and receive no commission of any kind.

We're on the Web!

www.bluebellpwm.com