Blue Bell

PRIVATE WEALTH MANAGEMENT

SPRING NEWSLETTER 2017

109 Days Accident Free

I recently walked into a local deli and noticed a sign proudly displayed which read, "78 Days without an accident." I assume that between the knives, meat slicers and grill, 78 days is quite an accomplishment. The Dow Jones Industrial Average bested that streak going 109 days without a closing drop of more than 1%. The streak ended on March 21st with a fall of 1.1%. Casual followers of the stock market may have assumed that the Federal Reserve raising rates the prior week caused the market to fall. After all, raising rates has served as a constant worry to the markets as financial programs and articles have speculated on what higher rates would mean and how much it would hurt equities. Interest rates were increased by a quarter point in March but that was not what caused the streak to end, rather it was the impending repeal of the Affordable Care Act. As it became more apparent that a deal would not be reached it became clear that "The Dealmaker" could not secure the deal. Suddenly the Trump economic agenda came into focus, what would this mean for tax reform, deregulation, and other economic policies? For the first time since the election, the markets questioned how much the new administration will be able to accomplish?

Is the "Trump Rally" overdone? If we use a Price to Earnings ratio, the answer is yes. The current forward P/E is 17.5x while the 25 year average is 15.9x. This translates to a current overvaluation of approximately 10% based on a constant multiple. However, this does not necessarily mean that it is time to sell as expensive markets can become more expensive. Sure the market could fall 10% to match historical valuations or the markets could fall 20% and become undervalued. Conversely, overvaluation may just mean that the market is borrowing from future returns. For example instead of returning 6% per year for the next five years the market may only return 4%. In other words, the economy may grow into valuations. Above average valuations may also be justified if tax policy and or deregulation creates a foundation for earnings growth above forecasts. While markets are slightly overvalued, we believe that remaining invested but in a hedged manner is the best strategy. Hedging may reduce returns in a bull market but also will mitigate losses in down markets. In a market slightly overvalued, the upside returns that hedging may decrease means less while the reduction of losses in down markets should give investors the courage to remain invested.

What most of our investors should not do is change their strategy. Too often accounts are brought to us where there have been several strategy changes. I always wonder if those changes were made to help the client or help the broker who was paid a commission every time a change was made. Even worse, with commissioned brokers it appears that they are always investing clients' money in what just did well and not necessarily what will do well. If you are earning a commission and trying to convince someone to buy, it is always easier touting tremendous recent performance. The problem is that the market is cyclical. It leads to a constant problem of chasing performance and buying at the wrong time. We are fee-only, fiduciary investment advisors as opposed to fee-based advisors or commissioned oriented advisors. We have no inherent conflict of interest as we don't accept fees or commissions based on product sales. Our goal is to provide comprehensive, unbiased investment advice at a reasonable cost. We provide a hedged strategy using options and index-linked notes that most commissioned brokers wouldn't offer because they lack sales incentives. In addition, there are tremendous opportunities to uncover value in the CEF space, but it is not easy and takes significant time and effort. Typically commissioned brokers are not going to spend the time and effort on investments that do not pay well. This is the case with CEFs (except for the IPO when brokers are paid handsomely). As fee-only advisors, changes to your account are made with care and purpose, which is essential in any market environment.

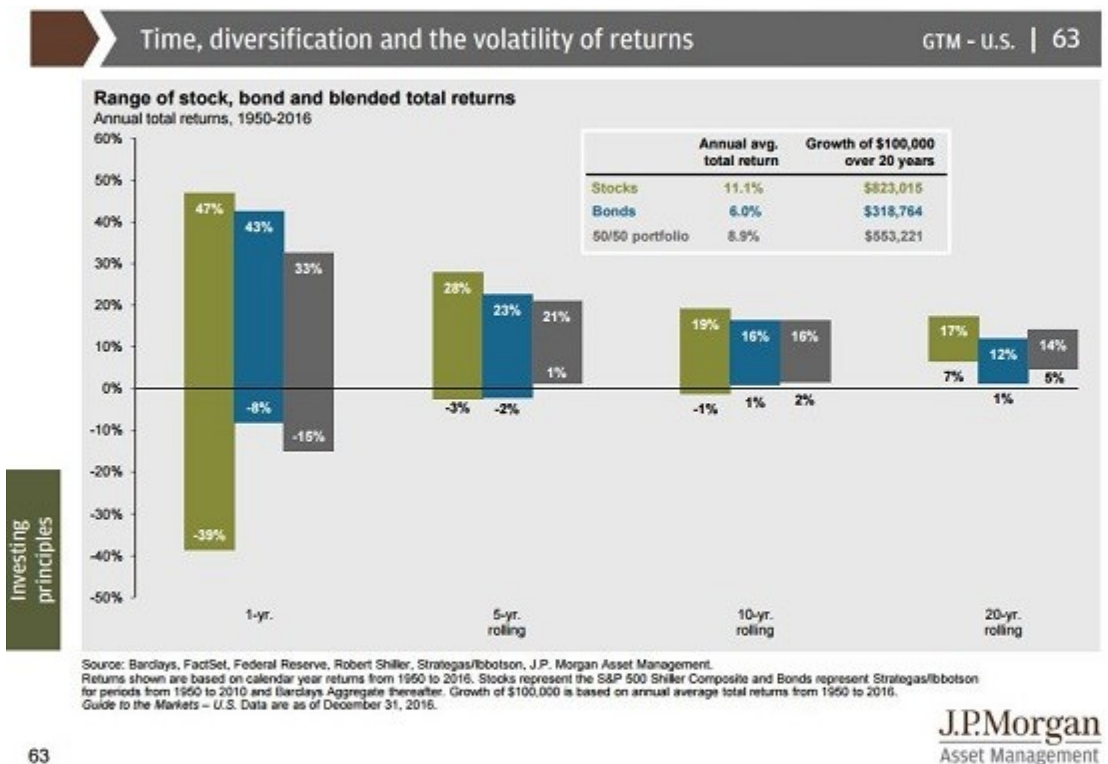
There are many ways to simplify your financial life and we are eager to be of assistance in any way we can. As always, we appreciate the confidence you place in us.

It's Not Timing The Markets, But Time IN The Markets

Too often investors attempt to time the market and follow media headlines proclaiming the stock market is either headed for new highs or on the verge of a crash. This has been evident over the past few weeks with headlines reading "Dow Volatile After Losing Streak," "The Trump Stock Market Rally is Under Siege," and "Dow Posts 8-day Slide, Longest Since 2011" as some examples. These headlines, especially negative ones, typically attract the most attention from investors and can lead to rash decision making. Alternatively, positive headlines about stock market performance such as "Wall St. Sees Even More Gains Ahead" can lead to inflated expectations of future stock performance.

We believe the best plan for investors is having a long term approach to being invested in the market. To start, it's as simple as saving money and contributing to investment accounts. The effect of compound interest on these investments and time are the biggest advantages that investors have. For many, the initial fear of beginning to invest is the hardest hurdle to overcome. Most people don't realize that by saving just cash, they're likely losing money due to inflation.

Having a long-term return goal on investments can help ease any noise in the markets. A recent Fidelity survey reported that only 8% of respondents knew that the U.S. stock market yielded positive returns 30 out of the past 35 years. It can be difficult to ride out the volatility and fear that seems omnipresent in U.S. equities but it should be noted that over the long term, U.S. equities have incredible positive returns. The chart to the right from JP Morgan shows annual returns over various time periods for a portfolio of U.S. equities, bonds, and a 50/50 asset allocation. Depending on how you observe the chart, the 1 year return of stocks from 1950-2016 can be scary or reaffirm your long-term investing horizon. We would like to draw attention to the right side of the chart that shows the 20-year rolling returns.



The chart shows that over any 20-year period from 1950-2016, the worst annual return would have been 7% for U.S. equities. It is important to remember that this is 7% annually. If you were to invest $10,000 during this worst period, after 20 years your initial $10,000 would now be worth $38,696.84. Now imagine over that 20 year period you had been contributing $5,000 a year in addition to the initial $10,000. Your total contributions would be $110,000 but your account value would be $243,674.31. This would have been during the worst 20-year period for equities over the last 65 years.

Looking further at the chart, 5-year and 10-year returns in U.S. equities are also favorable for investors. The worst periods would only have resulted in small losses for investors and further illustrate the point that investors should be more focused on a long-term plan for their investments. At Blue Bell Private Wealth Management, we strive to educate our clients to have this long-term outlook and help them to achieve their financial goals through investments that offer downside protection with returns in line with market performance.

Plan Now For Less Pain Later

Whether you are approaching retirement or still in the height of your working years, it is always a good idea to review your estate plan and named beneficiaries on accounts. Naming beneficiaries can direct your money to your loved ones in a more efficient manner than just a will and discussing your estate plan with your loved ones prior to your passing is recommended in most cases.

A recent study by RBC Wealth Management and Scorpio Partnership survey found that "Only 54% of those surveyed had even prepared a will, and most respondents with wills hadn't updated them." Anyone that is married, especially if you have children, should look to create an estate plan if they have not already done so. This includes reviewing or naming beneficiaries on 401(k)s and IRAs and making sure your will is completed and up to date. These processes ensure that your assets pass on to your loved ones in the most efficient way possible by avoiding probate and often taxes. The most important reason to review your estate plan is to make sure that your assets are being distributed in the manner that you wish to the people that you care about the most.

Not having a plan in place can prove costly. Your estate could end up in probate, costing your loved ones more money and headaches, often times, leading to discord amongst the remaining family members. According to an Ameriprise Financial survey of adults ages 25-70, 25% of respondents said that conflict arose between family members after a loved one's death once they had learned the terms of the will. This is usually because there is some level of misunderstanding about the actual amount of inheritance people believe they will receive. In that same study, "more than half of the survey expect to get an inheritance of more than $100,000. Among those who had already received an inheritance, about the same percentage (52%) got less than $100,000."

There are several reasons for this. People are living longer and with healthcare costs rising, retirees are having to dip deeper into the funds they may have originally apportioned passing on to their heirs. Other reasons may stem from family values such as wanting their children to work for their money. Moreover, one sibling may be wildly successful while the other may be struggling. Whatever the reason, it is important to understand that these misunderstandings can cause severe family turmoil when you pass away.

This applies to all possessions, not just money. Many times we see problems arise over family heirlooms such as jewelry or furniture. Disagreements can arise when an heir does not receive the item they may covet most.

What can you do to eliminate this possibility?

While you may never be able to entirely eliminate the possibility of fighting, the first step is to be sure that you have a will that states how you wish your assets to be distributed in the event of your death. Secondly, you should be sure that there are named beneficiaries on all of your retirement accounts. Also, discussing expectations of an inheritance with your children or beneficiaries can be helpful while you are still alive. The Ameriprise Financial survey discussed earlier stated that 83% of people surveyed hoped to leave an inheritance to their children yet only 21% of respondents had spoken to them about it. Discussing your reasoning about why you are doing what you are doing can lead to less misunderstandings and can even help you to decide how to allocate your assets. If you don't want to have that discussion with them now, leaving a video or letter stating why you distributed things the way you did is another alternative.

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7th Annual For Pete's Sake, Walk! at Citizens Bank Park

For Pete's Sake, Walk! is a 3-mile fun walk at Citizens Bank Park, the home of the Philadelphia Phillies! Walkers round the stadium concourse as they celebrate the beauty of relationships in their lives and the strength of those who battle cancer. Walkers who reach their appropriate fundraising goals will get the opportunity to visit the locker room and batting cages!

Date: Sunday, April 30th, 2017
Time: 9 AM Check-In, 10 AM Walk Start

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Reminders

- If you mail a check, please make the check payable to "Charles Schwab & Co, Inc." with your account number written on the check.
- Talk to your children about the benefits of starting a Roth IRA.
- SAVE NOW! Please consider setting up online access to view your accounts online and to receive your statements and trade confirmations electronically.
- Mention to your friends and family about signing up for our weekly blog posts and personal weekly reads about retirement, investing and more on our website!

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 , 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 serves as the receipt of, or as a substitute for, personalized investment advice from Blue Bell Private Wealth Management LLC Please remember to contact Blue Bell Private Wealth Management LLC if there are any changes in your personal/financial situation or investment objectives for the purpose of reviewing/evaluating/revising our previous recommendations and/or services. Please also advise us if you would like to impose, add, or to modify any reasonable restrictions to our investment advisory services. A copy of our current written disclosure statement discussing our advisory services and fees remains available for your review upon request.