Blue Bell
PRIVATE WEALTH MANAGEMENT

There was no shortage of news during the first half of 2016. There was also no shortage of volatility, as we predicted in our first quarter newsletter.

We spent a great deal of time in that newsletter discussing crude oil prices, both the positives for the consumers and the negatives for some U.S. companies. A CNN headline on January 12th stated, "Oil crashes to $30 a barrel." Less than one week later, WTI settled at $26.55, which at that time was a low close for the year. Equity markets followed crudes lead, but as crude recovered, so did the Dow and S&P 500. The current price is just under $50 a barrel, calming market fears for now. Investors who sold the small cap Russell 2000 index at the low during the correction earlier this year missed a recovery with a return of approximately 19%, as of June 30, 2016. This is another example of why we continue to stress a long-term approach to investing. Recently, more big news kept everyone on edge as the result of the Brexit vote surprised a large majority of market analysts and investors. This caused a two day panic as the Dow Jones fell 610 points on the Friday after the vote. Monday was not much better with the Dow falling another 260 points; a two day total loss that wiped out 3 trillion dollars globally. The two day total was the largest dollar loss ever, according to S&P Dow Jones Indices. This was not, however, the biggest percentage loss, which occurred October 19, 1987. Losses were not contained to the U.S., but were felt throughout the entire world with both bulls and bears making their positions known. Some were calling for a recession in Great Britain, some in Europe and E.U. nations, some for China, and some predicting a worldwide recession. Friday evening after the Brexit vote I had a friend brag that he got totally out of the market that day. My response to him, "When are you going to get back in?" His response, "Touché." Remember the problem with timing the market is that you need to be correct twice, once on when to get out and again on when to get back in. Most experts cannot consistently predict these moves correctly once let alone twice which is required to be successful.

What will the next major event be and what should we watch as the market volatility continues to create investor uncertainty? The Federal Reserve is of course somewhat unpredictable, but certainly has the power to move markets. A more dovish U.S. Federal Reserve may lead to a short-term boost in the equity markets, even with the somewhat elevated company valuations. The presidential election, which may be the most contentious in my lifetime, will certainly be something to watch. Domestic markets typically experience market volatility during the election season even in the best of times. But, "It's the economy stupid," a variation of the phrase James Carville coined during the 1992 campaign, that matters most. Markets react emotionally short-term but over the long-term, valuations are tied to economic fundamentals. Corporate earnings season began on July 11th and future earnings projections will be in the forefront of investors' minds during July and August. Will the world-wide economy experience significant negative earnings?—any changes here will cause major volatility. Will the central bankers save the day if earnings falter by continuing to cut interest rates and execute bond buying programs? For now, the U.S. has held off in its long promised increase in interest rates, another short-term positive. Standard and Poor's lowered the bond rating for Great Britain from AAA to AA the day following the Brexit vote. About 5 years ago (August 2011), our own U.S. bond rating was cut to AA, creating negative sentiment amongst market prognosticators and causing many pessimistic investors to exit the market. In the long run, investors that reacted emotionally and sold investments were wrong.

"We are expecting growth in the second half of the year," says Jeffery Immelt in the WSJ, but the GE chairman made that prediction before the vote. Since the vote, not everyone agrees on the direction of the economy but consensus seems to move toward moderate growth as employment finally has reached acceptable levels. Will inflation follow as often happens after strong employment numbers and wage increases? It is certain that with interest rates at such low levels income investors have become desperate to find yield. We are very cautious on this area of the market where investors are reaching for yield which causes *...continued on page 4*

Inside this issue

Reminders

- If you mail a check, please make the check payable to "Charles Schwab & Co, Inc." with your account number written on the check.
- Please let us know if you hold any IRA money outside of Schwab so that we may include this into our RMD calculations.
- 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.

Welcome Miguel L. Biamon To The Team!

It is our pleasure to announce that Miguel Biamon has joined Blue Bell Private Wealth Management in the position of Senior Investment Advisor.

Miguel brings twenty years of experience and a proven track record of success in the financial services industry. He most recently spent 13 years at the Bryn Mawr Trust Company holding the title of Senior Vice President, Director of Fixed Income Investments.

Miguel is a seasoned investment professional that has acquired a unique and diverse skill set. He enjoys working closely with clients to help them achieve their goals, and delivers an extremely high level of service and communication. His capabilities complement our team and the investment strategy that Blue Bell PWM implements.

Miguel holds a B.S. from East Stroudsburg University and currently holds his Series 7, 63, and 65 FINRA licenses. Miguel, his wife Debbie, and daughter Margot live in Lower Gwynedd, Pennsylvania.

Scott Sr. Is A Grandfather For The 4th Time!

Congratulations to Megan and Dan Galbally (Scott's daughter and son-in-law) on the birth of their beautiful baby girl! Paige Justine Galbally was born 4:00 AM June 13th, 2016. Both mother and baby are doing well and everyone is excited for the new addition to their family.

The Impact Of Rising Rates On You

On June 15th, the U.S. Federal Reserve, commonly referred to as the Fed, made the decision to maintain the federal funds rate of 0.25-0.50%. The Fed cited slow economic growth, low inflation rates, the British exit from the European Union ("Brexit"), and a high unemployment report for May. The Federal Reserve has been in the news often and the following is a brief background of the Fed and how rising rates may affect you.

What is the Federal Reserve?

The Federal Reserve is the U.S. central banking system that decides the nation's monetary policy by managing the U.S. currency, money supply, and interest rates. The main objective of the Fed is to ensure the stability of the U.S. financial system. The Federal Reserve Board of Governors convenes every six weeks to make decisions that affect you, millions of other Americans, and the global economy based on various economic data and current world events.

The Federal Reserve can affect monetary policy and economic growth in three separate ways. First, it establishes the discount rate which is the rate that banks borrow from regional Federal Reserve Banks. A higher discount rate tends to discourage banks from borrowing which in turn reduces lending to consumers. Secondly, the Fed buys and sells U.S. Treasuries in the market in order to influence interest rates for consumers. When the Fed buys U.S. Treasuries and increases the price of the bonds, the yields go down and consumer interest rates will follow. Lastly, the Fed sets the reserve requirement which is the amount of capital banks need to hold and when the reserve requirement is higher, banks are less likely to lend money.

Since 2008, the federal funds rate has been at historic lows as the economy recovers from the Great Recession. The majority of bank saving accounts rates are below 1% which, in economic theory, encourages people to take their money out of the bank and invest it into the economy, in pursuit of a higher rate of return.

How can the Fed affect you?

The most well-known way the Fed affects consumers is typically the interest rate on home mortgages. Mortgage rates closely follow the yield of the 10-year U.S. Treasury bonds and if the Fed decides to change the discount rate or federal funds target rate

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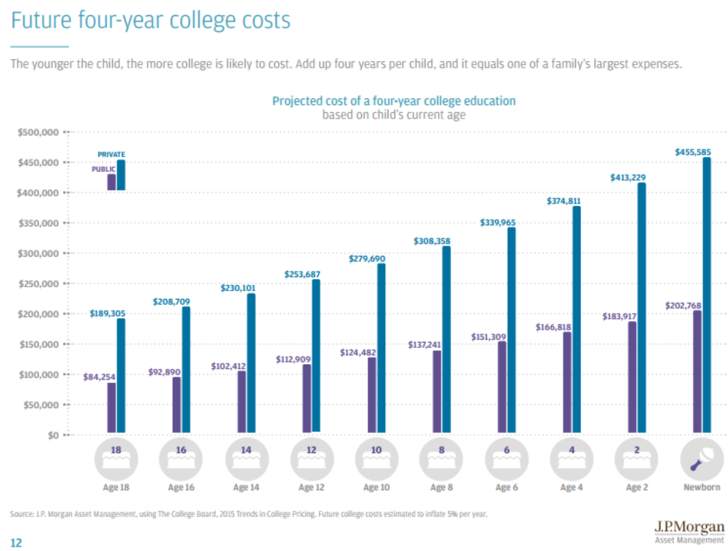
How Much Could Your Children's Diploma Cost You In The Future?

Do you or anyone in your family know someone that will be attending college in the future? Do you know that higher education tuition costs have increased faster than all other expenses for families over the past quarter century? Since 1983, college tuition and costs have risen 722%! J.P. Morgan Asset Management released a study stating that for a child born this year, it would cost an estimated $455,585 to cover tuition and room & board for a four-year private college. Are you currently saving or investing for a loved one's future education? If you aren't, you should start today!



In the graph to the right, J.P. Morgan Asset Management uses an estimated growth of 5% annually in the cost for tuition and room & board for a four year university. The most important thing you can do to prepare for these costs is to begin investing your savings today if you have the means. There are several advantageous plans for saving for college including custodial brokerage accounts, trusts, and tax-efficient 529 plans. The power of compound interest earned on investments coupled with a plan to steadily deposit funds into an account can outpace bank savings accounts, CDs, and any other short-term investment.

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The Impact Of Rising Rates On You *...continued*

up or down, it can have a large effect on lending for homes.

The federal funds target rate is also an important factor in setting auto loan rates, home equity lines of credit, credit card rates, and yields on Certificates of Deposit (CD). Auto loan interest rates, home equity lines of credit, and credit card interest rates usually move in tandem with the prime rate, which is set by the 10 largest U.S. banks. The Fed is able to affect the prime rate by buying and selling short-term U.S. Treasuries, thus affecting interest rates. CD yields typically move in line with the federal funds target rate and any increase in the target rate should cause CD rates to rise as well.

Any change in monetary policy can also indirectly affect inflation/deflation and the job market. An increase in the money supply encourages consumers to spend and can make it easy for businesses to raise prices on goods and services also known as inflation. The Fed's actions on interest rates also make it more or less advantageous for businesses to borrow money which indirectly could lead to companies hiring more employees or not.

The actions of the Federal Reserve are a major topic not only in the U.S. media but globally. The decisions that the Fed may make in the coming months to either raise rates or continue to keep them low will have an impact on financial markets. Lower interest rates will benefit those that are younger and may be borrowing money as it is cheaper to do so. If you are at a point in life where you are depending on your savings and income, lower rates are not as beneficial.

A Social Security Strategy That Could Benefit You

On April 30th, 2016, the Social Security Administration ended the popular claiming technique known as "file and suspend," which allowed couples to increase their lifetime benefits. Even though this strategy is no longer available, a second strategy, the "restricted application," is still available to people born before January 1, 1954.

What is the "Restricted Application"?

While "file and suspend" is gone, there is another strategy that is available for couples born before 1954. The restricted application, or "free spousal benefit," works when one spouse elects to receive their social security benefit at full retirement age. The other spouse can then elect to receive their spousal benefit rather than their own benefit. This allows the spouse (or ex-spouse) to collect up to half of their spouse's Social Security income while their own benefit continues to grow until age 70 at 8%. Once the spouse turns 70, they then have the ability to switch to their own larger benefit.

There are a few caveats that go with the restricted application. The first is that this strategy is only available if you were born before January 1, 1954. However, it is available to widows and widowers, regardless of when they were born. Secondly, it requires that one spouse is receiving their benefit at full retirement age. Spousal benefits will stop if the primary beneficiary is no longer receiving their benefits. If you take your early retirement benefit, at age 62, you are unable to take a spousal benefit without taking your own, and will be stuck with a permanently lower benefit.

Every individual's situation will be unique and you should talk with your financial advisor or a social security specialist to learn if using the restricted application would be beneficial to you. Deciding to file a restricted application could be a smart move, but it will depend on your current income needs, health, and family situation

BBPWM Team

Scott Miller Sr.
Partner
jsmiller@bluebellpwm.com

Scott Miller Jr.
Partner
smiller@bluebellpwm.com

Justin Capetola
Partner
jcapetola@bluebellpwm.com

Jon Sobotkin
Partner
jsobotkin@bluebellpwm.com

Miguel Biamon
Senior Investment Advisor
mbiamon@bluebellpwm.com

Hank Fox
Investment Advisor Representative
hfox@bluebellpwm.com

Christopher Paleologus
Vice President
cpaleologus@bluebellpwm.com

Jim Behr
Investment Advisor Representative
jbehr@bluebellpwm.com

Alex Marzullo
Intern

Meghan Lui
Intern

Beth Weinrich
Intern

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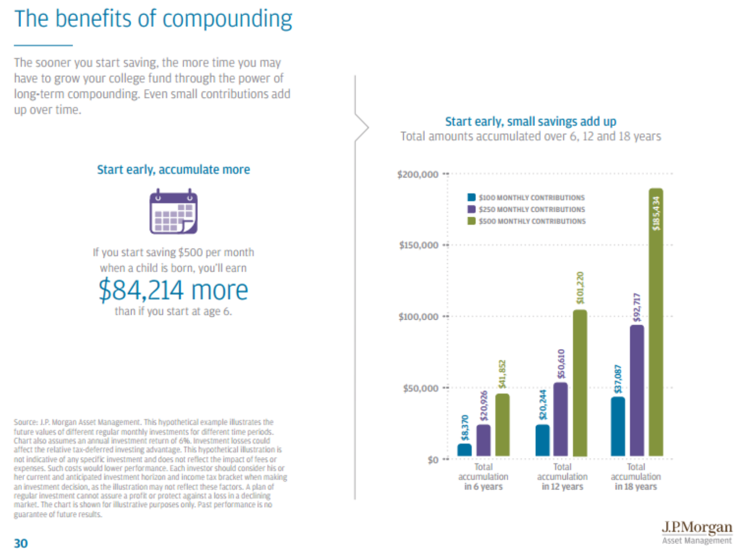
The graphic below from J.P. Morgan shows just how beneficial saving early can be when planning for future college costs. Having a plan where you are investing small increments monthly is much better than no plan at all and your investments will grow much larger the sooner you start saving. In their illustration, the graphic shows contributing either $100, $250, or $500 monthly over a 6 year, 12 year, and 18 year period to a 529 plan. Estimating a 6% annual return on investments, contributing $100 a month every month for 18 years-a total of $21,600 would grow to $37,807. If you were to only contribute for 6 years at $500 a month-a total of $36,000-your investment would only total $41,852. That is a 71.7% return on your investment in the first example versus only a 16.3% return in the second one. Allowing for compounding over longer periods of time, even at smaller amounts, will always benefit more than "waiting" until you think you have enough money to begin investing.



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elevated prices for purchases of income producing securities. Elevated prices create risk causing many investors to believe they are being safe when actually they are taking on much more risk than they realize. Many Master Limited Partnership (MLP) investors realized these dangers over the last year. What's an investor to do? One must position their portfolio, in our opinion, with some downside protection, watch both short and long-term movements of the dollar, be vigilant in following the price and demand of crude oil world-wide, and watch not only present earnings but future projections. While equity prices seem high, the possibility of a bond bubble as world economic stimulus drives interest rates to even lower levels than last year is more of a concern of mine than the stock market itself. Most important, however, is that you keep your long-term objectives and expectations in the forefront and not allow sensational journalism to control your emotions.

Please let us know of any changes in your personal situation, as you know we always appreciate your questions. Hoping to hear from you soon.

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Blue Bell
PRIVATE WEALTH MANAGEMENT

Blue Bell Executive Campus
Suite 305
470 Norristown Road
Blue Bell, PA 19422

Tel: 610.825.3540
Fax: 610.825.9690
www.bluebellpwm.com