August 2011

About Beacon Financial Advisors Ltd.
Beacon is an independent fee-only advisor with a clear mission statement: To provide our clients long-term value-added financial counsel and investment performance with *exceptional service.* **Beacon** is a Registered Investment Advisor with the US Securities and Exchange Commission.

Beacon's Advisors
MARCEL HEBERT has a B.S. in Finance, an M.B.A., and is a Certified Financial Planner (CFP) licensee and a Chartered Financial Analyst (CFA) charterholder.

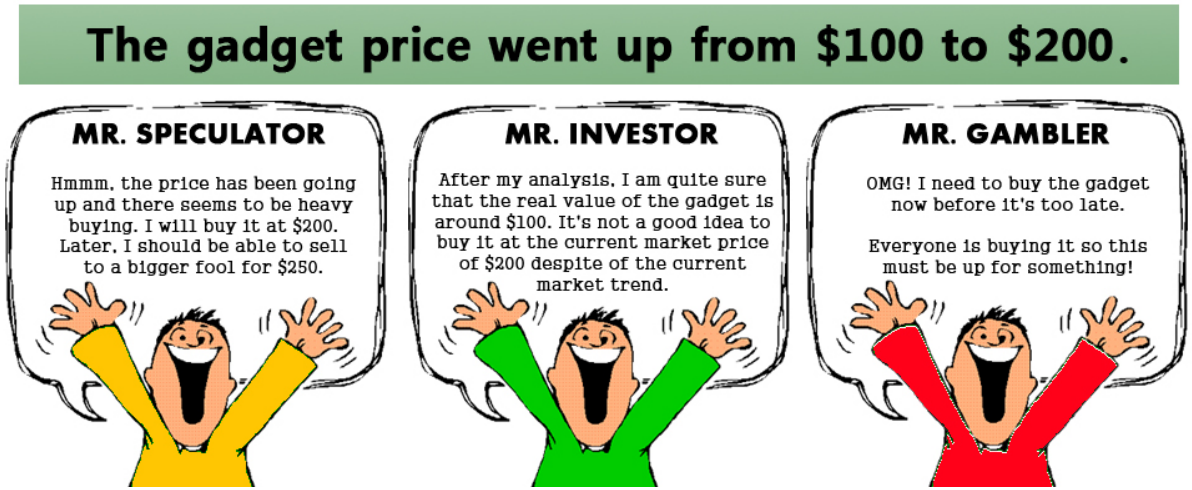
JOSH HEBERT has a B.S. in Accounting, an M.B.A., and is a Certified Internal Auditor (CIA) and a Certified Financial Planner (CFP) licensee.

CHARTING THE COURSE

Special Series of Briefs About Beacon's Client Services

BEACON AS INVESTORS...NOT TRADERS: *Key Distinctions*

Often the word "uncertainty" is improperly used in investing, in **BEACON'S** opinion. *"Markets dislike 'uncertainty'."* Since nothing in business and finance is 'certain' we've never appreciated that description. In that context, we think "clarity" is a better term. Clarity about the important things that impact markets including political/regulatory policy tools like fiscal and monetary policy--that's a better term. If the opposite of clarity is ambiguity, when political/regulatory policy is ambiguous investors get nervous and negative events often trigger stampeding herds **(see WSJ article p. 3; we wonder what their bosses thought about their job performance that day)**.



"Don't just STAND there, DO SOMETHING". When the herd stampedes, **BEACON** does not follow. Why? In short, because we are investors and not traders. What's the difference? Traders, including large entities, often use quantitative algorithm-driven computer strategies with drastically brief time holding periods sometimes in minutes or even seconds. Couple this with individual day traders and you end up with completely irrational price movements. One morning ExxonMobil is worth $350 billion at $75/share, and by day's end it is worth $315 billion at $68/share. It is unlikely that the value of the world's largest diversified, multi-national, publicly-traded energy company changed that much in one day! The ability to predict this sort of swing movement is virtually impossible, and the ability to explain them is equally so (unless you're a CNBC talking head explaining with precision the why's and wherefores' *after* the markets close). We think proper investment function involves other parameters for decision making.

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BEACON AS INVESTORS...NOT TRADERS: *Key Distinctions*

Don't just DO SOMETHING, STAND there! Peter Lynch of Fidelity Magellan fame once wrote about the single best company investment he ever made in his storied career. First he endured looking foolish for three years with the underperforming stock. What would a modern "day-trader" think of holding an underwater stock for three years waiting for the expected return? (don't bother answering). As investors and not traders, **BEACON** wants to own businesses. A business is a long-term proposition with profits and cash flows, investments and risks, competitors and vendors and customers, products and trade secrets, etc. These "fundamentals" will remain the long term drivers of stock prices and, hence, investment returns. We think the probabilities of objectively researching and valuing the economics and sustainability of a business is a superior proposition to predicting the movement of "markets" in seconds, minutes, days, or weeks. The **mutual fund managers we hire** for you pursue owning businesses with a "buy and closely monitor" process. In fact, each and every one of our managers during inevitable periods of market hiatus, rigorously stress-tests their holdings and reaffirms or reassesses their investment convictions. In almost all cases, they use market selloffs to add funds to their company stock holdings. Additionally, **BEACON** periodically rebalances your portfolio seeking to "buy low(er), sell high (er)." The long view. No panic. Hard work. Ongoing vigilance. That's what **Don't just DO SOMETHING, STAND there** means to **BEACON**.

DODGE & COX®
Established in 1930

Tweedy, Browne Company LLC
Established in 1920

AB
ALLIANCEBERNSTEIN
Established in 1967

You hired **BEACON** to manage your hard-earned investment dollars to fund your lifetime goals (see p. 4). You did not hire us to "beat the market" (if you did you didn't tell us). Our SEC filed Form ADV states:

The *raison d'être* of our investment strategy is it is based on articulating and accomplishing your financial life goals.

While the interests of the business [brokerage companies] are served by the aphorism 'Don't just stand there. Do something!' the interests of investors are served by an approach that is its diametrical opposite: 'Don't do something. Just stand there!'"

JACK BOGLE, Founder Vanguard Investments, January 2014 in MarketWatch.com

BEACON AS INVESTORS...NOT TRADERS: *Key Distinctions*

Mom-and-Pop Investors Buy, Sell, Fret: Retail Traders Swing Into Action (THE WALL STREET JOURNAL 8/11/11)

In a throwback to the day-trading era, the market's stomach-churning gyrations are creating a new class of stock obsessives hanging on every dip and rebound. Average investors are scrambling to stay ahead of the massive swings—often via mobile devices like iPads and smart-phones, leading to sharp spikes in trading volumes at many brokerages.

Andy Lavin, seen here in his office with employee Shannon Thornton, says markets have him 'unnerved.' "I am distracted and frankly unnerved," says Andy Lavin, a public -relations executive in Port Washington, N.Y., who manages about $800,000 of his own money. Mr. Lavin says he has been checking his iPad regularly during meetings and on his way to work. On Monday, he bought $15,000 in futures on the Chicago Board Options Exchange Volatility Index. After President Barack Obama addressed the decision by Standard & Poor's to downgrade long-term U.S. debt, Mr. Lavin dashed to monitor the market reaction. "If you look away for a second, you lose," Mr. Lavin says.

Since Aug. 4, the Dow has experienced historic intraday swings, averaging 585 points a day, up from an average of 185 points a day earlier this year. That volatility is spurring investors to action. At TD Ameritrade Holding Corp., customers placed more than 900,000 trades on Monday, nearly triple the daily average of 350,000, says Nicole Sherrod, managing director for the company's trader group. The number of clients logging in to their accounts went up 20%, while mobile usage rose by 35%. Discount broker E*Trade Financial Corp. said records were set on Monday for overall trading volume, options volume and mobile transactions, while the number of log-ins to online accounts shot up by 42% from the daily average. Rivals Charles Schwab Corp. and Fidelity also reported surges in trading volume.

The high-stakes drama is also making once-calm investors jittery. Richard Chaifetz, chief executive of Chicago-based ComPsych Corp., which provides mental-health counseling for 13,000 companies, says his firm has seen a 15% increase in calls from stressed out employees who are watching the stock markets from their desks.

Even some 401(k) investors are getting more active. Before this week, Ryan Jones rarely monitored his investment accounts. Now the 30-year old advertising strategist checks his phone several times a day for market reports and devotes his lunch time to rejiggering his portfolio. "I'm just a regular guy who started the month with a 401(K) balance, and am trying to make sure it's still there next month," he says.

Trading styles are changing, too. Customers have gone from trading individual stocks like Microsoft Corp. and Netflix Inc. to more exotic products like the SPDR S&P 500 exchange-traded fund, the iPath S&P 500 VIX Short-Term Futures exchange-traded note, and commodity funds, says Ms. Sherrod. The reason: In volatile markets, stocks have historically moved in unison, making indices more attractive. Futures accounts are on the rise as well, as customers look to play gold and other commodities. "We've never seen anything like it," Ms. Sherrod says. "This is definitely a distraction."

Sandler O'Neill + Partners analyst Richard Repetto estimates that at the three large discount brokers—E-Trade, TD Ameritrade and Schwab–the average daily volume in August has increased by 70% from July. Andrew Schrage, a 24-year-old website editor, shifted the allocations in his $50,000 portfolio, away from equities and further into bonds, selling some of his technology stocks on Tuesday after announcements by the Federal Reserve that the central bank planed to keep interest rates near zero. Mr. Schrage, who lives in Chicago, says he is planning to plow the money back into stocks, but is waiting for the right opportunity. "This volatility has forced me to adopt a day-trading mentality," Mr. Schrage says. The activity isn't necessarily good news for execution-only brokers in the long term, however. Unlike the go-go 1990s, when day traders out for quick profits drove volumes, many investors are now fixated on how to avoid huge losses. Once they sell, they might not come back for while. Indeed, Ameritrade says many investors are opting to sell and haven't yet been lured back by deeply discounted shares.

Dan Nainan, a 30-year-old comedian, spent Tuesday in his New York office fixated by the market fluctuations, refreshing the screen on his online brokerage account every couple of minutes throughout the day. About a half-hour before the close of trading, Mr. Nanian sold $120,000 worth of his Apple stock. "I felt a tremendous sense of relief," he says, "and I'm not buying again." In a choppy market like this one, a single lunch meeting or conference call that results in missed trading opportunities can translate into thousands of dollars in losses. Andrew Clark, a 30-year old, real-estate consultant in Birmingham, Ala., sold about half of his Apple Inc. stock on Monday morning after it opened 3.2% down. During a client meeting, he missed a brief rally when the stock went up 1.7%. "I would have bought those back at that point," Mr. Clark says. "If you aren't glued to these movements, you miss so much."

BEACON AS INVESTORS...NOT TRADERS: *Key Distinctions*

BEACON'S VIEW:

VOLATILITY is meant to describe times when the value of assets in your portfolio fall in price (usually short term).

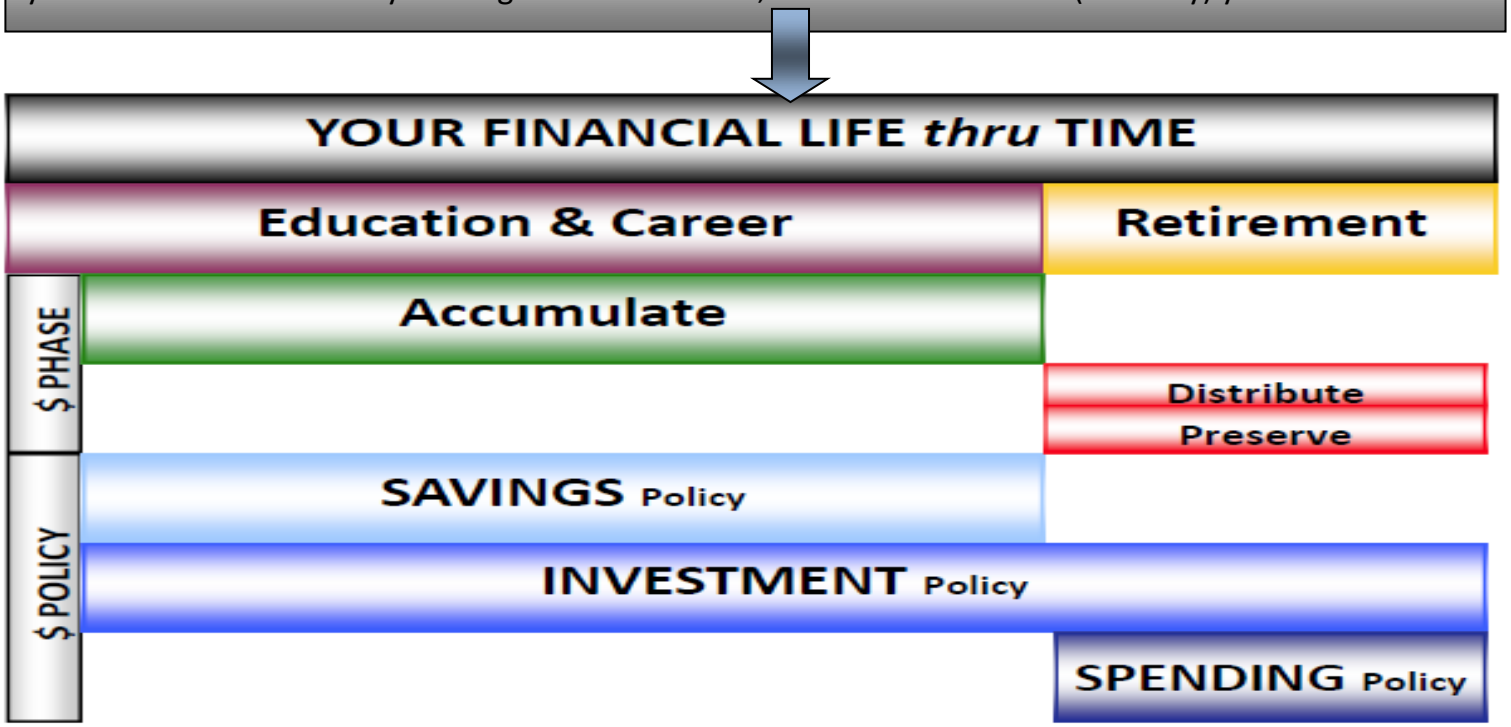
RISK is meant to describe the chances of not meeting your goals (principally long term).

We believe VOLATILITY can provide opportunity to rebalance your portfolio [a.k.a. buy low(er), sell high(er)].

BEACON'S VIEW:

"We believe your greatest risk is exhausting your money before exhausting your time. While we cannot eliminate declines in the value of your total portfolio over short periods (volatility), we emphasize the long term benefits of diversification and steadfastness to your plan as the best ways to manage your greatest risk."

We help you articulate and implement our investment strategy with full consideration to **YOUR FINANCIAL LIFE *thru* TIME** (chart below). YOUR FINANCIAL GOALS drive your policies of savings, investment, and spending. These set the foundation for establishing your investment return target and risk tolerance range. We run extensive SIMULATIONS to gauge the probability your capital will outlast you. After we determine your target return and risk, we then can allocate (diversify) your assets.



BEACON'S VIEW:

We believe it is always appropriate for you to remain diversified, and to maintain a long-term investment focus.

BEACON will not deviate from your investment plan unless you mandate we do so.