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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'S GUIDEPOST: PUTTING CLIENTS FIRST... ...Whether They Like It Or Not!

**Cliché** (pronounced klē'SHā; noun) - a phrase or opinion that is overused and betrays a lack of original thought.

"Putting Clients First" sure sounds like a cliché, doesn't it? Type it in Google and get over 52,000 hits including companies that at a time or another used it in ads or mission statements. Yep, "putting clients first" sure has the ring of a trite, stereotyped expression that fails to inspire.



But, our tagline "**Whether They Like It or Not**" is a catchier headscratcher—wouldn't you agree? Just how can a financial advisor like BEACON place the interests of clients on top and possibly elicit their dissatisfaction? At the risk of oversimplifying: imagine a parent cautioning their son eating too many sugary snacks will cause cavities (will someone yell cliché). It doesn't really impress junior while he munches on a bag of Skittles. It's only when the dentist is drilling that the real message hits home. Now imagine a parent actively subbing an delicious Fuji apple for Skittles—that's putting junior first—**whether he likes it or not!**



In past issues of **BEACON'S** Charting The Course\* we've touched on subjects related to "putting clients first" (\*our service brief series available at [www.bfaltd.com](http://www.bfaltd.com) in [BEACON'S LIBRARY](#)). Just last month (July 2017) we penned [BEACON'S CULTURE OF ALIGNED INTERESTS](#) to expand on [BEACON EATS OUR OWN COOKING](#) describing how we and our fund partners invest alongside our clients. In [BEACON PRACTICES GOOD ETHICS](#) we list objectives that reveal **BEACON'S** commitment to ethical conduct. Our mission statement includes the goal "win by not losing." We've always stressed our clients should focus on the long view and avoid short-termism, fundamentals not fads. We've thought about some practical ways we've pursued "putting clients first" to illustrate what we mean by "**whether they like it or not.**"

In the mid-late 1990's the internet was emerging into the public consciousness as a disruptive game-changer. The DOT COM era brought us profitless internet stocks and the new career, Day-Trader. **BEACON** supported our fund managers avoidance of investing in all that Wall Street underwriters were pumping out. At the time, some clients wondered aloud (some no doubt silently) why **BEACON** wasn't directing their capital to embrace the profitless DOT COM's. We resisted, **whether they liked it or not**, and we lost some clients and frustrated others. The pressure we felt was palpable when it seemed everyone's grandmother was day-trading *anything.com*. Fortunately, our persevering clients wholly avoided the tech-wreck and emerged in late 2002 unscathed by the NASDAQ's 85% peak-to-trough slide. In hindsight it was one of our all-time best investment decisions even if it was an act of omission—avoiding those securities and industry sectors that offered a poor risk versus reward.





**BEACON'S GUIDEPOST: PUTTING CLIENTS FIRST...*Whether They Like It Or Not!***

**F**ast forward to 2007—we're yet to experience The Great Recession. **BEACON'S** experience has taught us the further you get away from the last bear market, the more people convince themselves they can handle the downside—until the downside hits. If you don't know who you are the stock market is an expensive place to find out. As modern day Philosopher Mike Tyson once said, *"Everyone has a plan 'til they get punched in the mouth."* After a multi-year increase in financial asset and housing prices, by August 2007 the housing boom became a crisis brought about by the collapse of sub-prime mortgages and lenders alike. Mark-to-market accounting rules required banks to value distressed assets at the prices established by desperate sellers causing many financial institutions to raise capital in a short period, accelerating a credit-crisis. To meet capital calls, highly indebted entities like leveraged hedge funds were selling anything not nailed down. In 2008 from March to October, we witnessed the failure or takeover of a host of financial companies—Bear Stearns, AIG, Wachovia, Countrywide, Merrill Lynch, and so on. Citigroup Inc.'s stock declined from the \$40's to \$0.95 (95 cents/share). Even large GSE's (Government Sponsored Entities) including Fannie Mae and Freddie Mac lost substantial shareholder value, and some municipal bond insurers failed. Global stock prices trended lower in 2008 before dropping like a stone from October 2008 to March 2009 following the failure of investment bank Lehman Brothers. Such was the panicked global "flight to safety" that all but U.S. Treasury securities fell in price. Diversification seemed, at the time, a feeble strategy. The business media (more below) incessantly trumpeted the losses, stoking fear. During that time **BEACON** held daily client meetings and calls, and issued dozens of PERSPECTIVES ON INVESTING emails to clients with a whether-they-like-it-or-not recommendation—don't abandon your long term investment plan and turn "paper" losses into "real" losses—bear markets usually end without announcement and stock prices can recover quickly. **BEACON'S** prescription, patience in the storm, was tough medicine to administer for us, and even tougher medicine for worried clients to swallow. Most all clients took their medicine and held firm. By March 2009 stocks mercifully ceased declining, and in the next four months rebounded 40%. It took awhile longer, but in another three years time our clients were fully restored to pre-crash portfolio levels.



**B**usiness media is an Achilles heel to many investors. At **BEACON**, we often get emails from clients asking our opinion about an article or TV broadcast..."sell stocks now"..."inflation set to explode" and so forth. Business media look for winners *du jour* and highlight losers, and seek sensational stories much like the local evening news. It's well-established by behavioral economics/finance that many investors cannot master their emotions when it comes to managing money. Our service brief HUMAN BEINGS MAKE LOUSY INVESTORS noted Jane Bryant Quinn's description of business media advice as *"investment pornography."* Nobel laureate economist, the late Merton Miller, once wrote *"investment advice from journalists is part of the entertainment industry."* So, what does **BEACON** encourage clients to read? Whether they like it or not the shareholder letters, research papers, and other insight articles written by our mutual fund managers. After reading about the dilutive impact on bonds from stock buybacks, widening credit spreads, and free cash flow—for real entertainment we recommend Netflix.



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**F**ast forward to mid-2017. We're now eight years into a U.S. economic recovery, albeit moving like a "plow horse" (economist Brian Wesbury's apt description). The U.S. stock market has gained well over 200% and increasingly, like all long-lasting bull markets, the major indexes like the market-cap-weighted S&P 500 are being carried by just a handful of large stocks pulling the lesser performing stocks along with them. Resembling the tech-heavy late 1990's, today the F.A.A.N.G stocks are leading indexes higher—that is, Facebook, Amazon, Apple, Netflix & Google. In classic "follow the herd" patterns, passive ETF's and index-tracking mutual funds are attracting boatloads of new fund inflows, while many active managers are experiencing net outflows. Fundamentally, passive investing is always going to look great during a lengthy bull market. A consequence of this durable bull market is the emergence of a "new paradigm" being promoted by passive investment advocates—passive indexing is always better than active management. Ipso facto—it then stands to reason that "good" managers will pursue what is better—passive investing. So pervasive is this notion that many fiduciaries like 401k sponsors are increasingly adding passive index investment options and, in some cases, exclusively so. Well, as you might have guessed by now **BEACON** believes putting clients first does not mean we're following the stampede into passive investing **whether they like it or not**. Quite the contrary, our current lineup of stock and bond fund partners includes nary a passive manager—they're all active managers.



In the recent past, **BEACON** has fielded questions from some clients about our decision not to go-passive with either ETF's or index mutual funds, aka follow the herd. In response, we penned a couple of service briefs the past twelve months beginning with [ACTIVE & PASSIVE INVESTING CHOICES: COMPARING & CONTRASTING](#) and most recently [A NEW RELIGION: PASSIVE INDEX INVESTING](#). Passive investors are price "takers" and, as a result, invest disproportionately in the most expensive stocks. When bull markets end, it is often the priciest securities that get the biggest haircut. In contrast, active investors are price "makers" and can be judicious about what to buy, and not buy—seek return and manage risk.

Follow the ~~rules~~ too closely..  
*herd*



...and you'll end up in a heap of sheep.

**BEACON** understands we're not going to be loved all the time (even if we'd like to be...human nature, right?). We wrote our service brief [DIVERSIFICATION MEANS ALWAYS HAVING TO SAY YOU'RE SORRY](#) with this in mind. As balanced, global investment managers deploying price "making", risk-managing active managers, we want to succeed over the long term. If we can't be loved all the time, we'll settle for periodic appreciation **whether we like it or not!**

**Diversification Means Always Having To Say You're Sorry**

The advisor was giddy. It was January, and the firm's newest client was in for the New Year's initial meeting. Minutes into the meeting the advisor confidently presented the client's investment returns for the prior year—*"We invested your portfolio in three assets. The 1st returned 10%, the 2nd 15%, and our best performer returned 20%!"* After a thoughtful pause, the client tersely replied, *"Well, why didn't you put all my money in the best performer?"* Stunned, the advisor slumped in the chair and mumbled silently, as if staring at the floor, *"It's true—diversification means always having to say you're sorry."*

—BEACON Parable