VIEW from the Lighthouse

2009 1st Quarter

Beacon Financial Advisors, Ltd.

Please remember to contact Beacon Financial Advisors, Ltd. if there are any changes in your financial situation or investment objectives, or if you wish to impose, add, or modify any reasonable restrictions to our investment management services. A free copy of our Form ADV, Part II is always available upon request.
An important note: Where reference is made in VIEW to Beacon's relative performance, or individual mutual fund performance, it applies to fully invested portfolios for the period. Actual results vary among clients, as risk tolerance levels and the timing of asset purchases & sales are unique to each of our clients. Each client's unique results are revealed in the performance reports inside their Investment Review.

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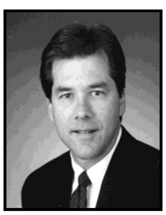
About Beacon Financial Advisors
Beacon is an independent fee-only advisor with a clear mission statement: To provide our clients long-term value-added financial counsel and investment performance with *exceptional service.* **Beacon** is a Registered Investment Advisor with the U.S. Securities & Exchange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



About the Author
Marcel Hebert has nearly thirty years experience serving as a financial and investment advisor to individual clients. Marcel has a B.S. and an M.B.A. in Finance, and is a Certified Financial Planner (CFP) licensee and a Chartered Financial Analyst (CFA)

ECONOMIC, INVESTMENT REVIEW AND OUTLOOK

2008 was an extraordinary year for investment markets—extraordinarily *poor!* As of this writing in late February 2009, the ill-winds from 2008 have carried over. The widely-followed S&P 500 Index returned –37% in 2008, and as of today the 2009 YTD return is –14%. From the S&P 500's all-time high of 1,565 reached on 10/9/07 to today's intra-day low of 748*, the venerable index's peak-to-trough return is now –52% (below the recent lowest point of 752 on 11/20/08).

Stocks bloodied

In 2008 we witnessed almost every traditional asset class in the U.S. get bloodied except cash and U.S. Treasury securities. **Beacon** initiated issuance of frequent and periodic client communications in e-mail format called PERSPECTIVES On Investing designed to keep clients informed of economic/investment developments and our view (more about the latter on page 2, *Beacon's Balanced, Global Portfolios).* Last year witnessed the collapse, bailout, or forced merger of household names among financial companies—Merrill Lynch, Fannie Mae, Freddie Mac, Washington Mutual, Wachovia, Lehman Brothers, Bear Stearns et al. That financial stocks ranked as the worst-performing stock industry was no surprise. But, stocks got pummeled in all industries, size, and sectors. And if one thinks stock returns in the U.S. were bad, international markets did even worse as the major benchmark MCSI-EAFE* returned nearly –43% in 2008 (*Morgan Stanley Capital International Europe Australia Far East).

Bonds (ex-U.S. government) run and hide

Fixed income markets in 2008 had a *clear demarcation line*—if the U.S. government guaranteed the bond it likely have positive returns; if not, it was losses all around! Investment grade corporate bonds and municipal bonds, normally safe havens, had their worst year in decades as investors shunned everything that was guaranteed by the U.S. government. **Beacon** wrote several PERSPECTIVES issues describing how in nearly 95% of instances in which stocks slumped, bonds gained. However, since that wasn't the result in 2008 even well-diversified portfolios experienced losses.

New administration—stuff the mattress!

Voters ushered in President-Elect Obama on 11/4 but so far investors are not feeling the love. From election day to today, the S&P 500 has returned –26%. Many stunned investors (individual and institutional) have herded-out of stocks and bonds at breathtaking pace. That fear has resulted in cash-hoarding such that the corporations and individuals are sitting on mounds of cash. The FED's most recent survey of consumer finances estimates individuals are holding *over $6.6 trillion in near cash*.

BEACON'S BALANCED, GLOBAL PORTFOLIOS

But that mountain of cash is earning almost no return. As recently as a few weeks ago, the yield on a 3-month U.S. Treasury bill was 0% (not a misprint). So *fearful* have investors become that they're willing to forfeit any return in exchange for (perceived) safety. So far the Obama Administration has not succeeded in abating investors fears and restoring confidence, but that is still a work-in-progress.

Research, not emotions, should rule

At **Beacon,** we understand the temptation to run away from risk. But, we think the "flight -to-quality" is exactly the wrong action. Investors are human, succumbing often to flawed, emotion-centric decision making. They "anchor" expectations—good news begets good expectations and vice versa.

Stay the course! Why? Answers below

In our work with clients to craft and implement individual investment policies, these are designed to be used in good *and bad* markets. As bad markets unfold, the investment policy allows us to *dispassionately* make investment decisions through thoughtful rebalancing.

As 2009 began, almost all our clients were below their normal allocation to stocks. That makes sense mathematically, as stocks have performed more poorly than other asset classes and effectively shrunken their slices of the 100% pie. On the other hand, fixed income allocations are higher than clients' normalized allocation targets. **Beacon** has communicated in our PERSPECTIVES issues that we will *incrementally* rebalance client portfolios rather than perform a major, one-time shift from bonds to stocks. The two major reasons are as follows:

1. Bonds (fixed income), especially investment grade corporate and municipal bonds, represent excellent opportunity. For example, Dodge & Cox Income (DODIX) now yields 7.45% on a diversified portfolio of investment grade bonds. Similarly, AllianceBernstein Diversified Municipals (AIDAX) yields 4.5% tax-free. These bond sectors are yielding nearly 2X their normal relative-yields to comparable maturity government bonds.
2. Stock valuations are historically compelling—but it'll take a return of investor confidence to unlock them. Said another way, the key to economic growth and stock price recovery is risk-taking, and consumers/investors have become risk-avoiders. No one knows for sure what the catalyst and timeframe will be for a change in attitudes. But, we do know from economic history that it always does happen. Meanwhile, our stock managers continue to find stock investments that are available at prices that are low relative to the companies' real cash flows and book values. Over time, we believe our clients will see that "trouble brings opportunity."

Scandals avoided

Now that Bernard Madoff and Sir Allen Stanford replaced Charles Ponzi in investor lore, we're reminded again there is a strong case to be made for mutual funds and independent advice separate from asset custody. At **Beacon,** our mutual fund partners have kept us from scandal. And remember—**Beacon** is your advisor yet Schwab Institutional has your money. Madoff and Stanford were alike in that they had related companies performing both roles so fraud was possible. ■