



# VIEW from the Lighthouse

## 2009 2nd 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.

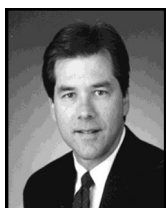
**An important note:** Where reference is made in VIEW to Beacon's relative performance, or individual mutual fund performance, it applies to fully invested portfolios for the period. Actual results vary among clients, as risk tolerance levels and the timing of asset purchases & sales are unique to each of our clients. Each client's unique results are revealed in the performance reports inside their Investment Review.

May 2009

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) charterholder.

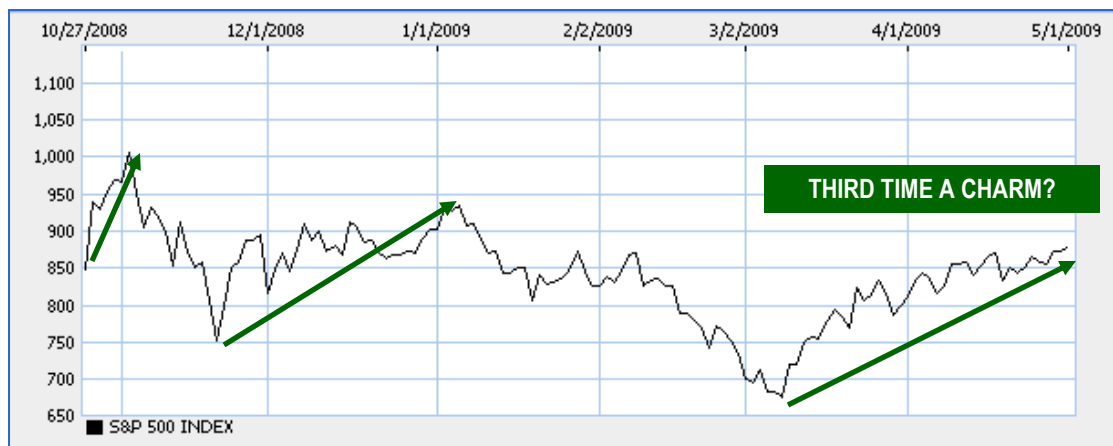
### The ROAD to RECOVERY

*From* January 2009 to early March the S&P 500 continued its long descent from the high of 1,565 reached back in October 9, 2007, carving out a new trough on March 9 at an intra-day price of 648—down a breathtaking **-58%**. Articles surfaced in all media outlets debating whether or not we were headed for a 2nd Great Depression. Since March 9 the S&P 500 produced eight (8) consecutive weeks of gains and closed May 1 at 877 (up 35%).

Straddling the March 9 S&P 500 trough **Beacon** distributed three (3) issues of our **PERSPECTIVES On Investing** (via email):

- March 3—Normal Recovery Underway but Headwinds Buffeting
- March 18—More Evidence of Recovery
- April 15—Third Time a Charm?

In the April 15 "Charm" issue, we noted that stocks had attempted on prior occasions to mount a recovery but the gains were dissipated and the S&P 500 reached new lows each time (see chart below). This time global stocks have rebounded in most all geographies amidst hopeful signs including some positive news on the economic front in housing, consumer spending, and manufacturing sectors, while energy prices have remained low. In numerous issues of **PERSPECTIVES** **Beacon** observed that the *return potential* on "risk-based" investments (stocks, bonds ex-Treasury, etc.) was historically high, and on "risk-free" investments (Treasury) was historically low. Of major importance, we noted, was that thawing of investors' fear was crucial for money to flow back into traditional stocks and bonds. History strongly indicates markets rebound before economic news turns positive. As 2009 Q1 unfolded positive comments came forth from management of many U.S. banks (including some major banks), and when reinforced with better-than-expected earnings, investors began to take note and investor psychology leaned to the "optimistic" view that a recovery was underway.





### BEACON'S BALANCED, GLOBAL PORTFOLIOS

*The* dramatic events of the past year and a half have challenged investors and investment advisors alike. It has raised questions of all sorts from **Beacon's** clients too. Since many of our clients share similar concerns, we've assembled our responses to five (5) of the issues we're being asked about most frequently.

- 1. Is Beacon planning any changes to our investment partners (mutual funds)?** As is always the case our due diligence with our investment partners is continuous in nature. We continue to look carefully "under the hood" so to speak to make sure we understand and concur with the investment approach our partners are undertaking, and that their holdings "compliment" so as to constitute a diversified portfolio (more on that below, and chart page 3). Having said that, the global economic and investment crisis now in it's 2nd year has been so widespread that virtually no investment strategy has been able to distinguish itself. We presently have no plans to replace any partner.
- 2. Is government (Washington) helping or hurting?** Looking past "politics" and focusing on policy—proposed and implemented—there are cross-currents. There are risks of over-reach—stifling regulation, monetizing debt, and higher taxes on small business, et al. On the positive front governments around the world have put forward innovative economic programs that may be without rival in scope, and central banks around the world have in synch reduced short-term interest rates.
- 3. Diversification is one of Beacon's key investment tenets. Has diversification worked?** Diversification has proven more useful than is generally recognized as evidenced by the media accounts that diversification failed investors. Normal benefits from geographic diversification in stocks were nullified in 2008 as the economic shock was global. Fearful investors' flight to U.S. Treasury securities produced a bifurcation in the performance attribution of the bond market—all bond credit sectors lost ground. Normally bonds gain when stocks lose, but the asset class diversification of owning bonds and stocks was somewhat muted in 2008. As the chart on page 3 depicts, all stock asset classes lost big in 2008. Nonetheless, as the table below shows a diversified portfolio that included bonds lost considerably less than the stock market, giving investors meaningful benefit.
- 4. What will Beacon change, if anything, about it's investment process?** Our discussions with clients in the initial development and ongoing management of their IPS (Investment Policy Statement) will re-emphasize the low-probability, high stress outcomes—like when U.S. stocks fall 50%.
- 5. Where does my portfolio stand relative to October 9, 2007 (S&P 500 peak), and how long will it take to recover?** As **Beacon** has noted the cascade down of investment prices in the Fall of 2008 turned a bear market into a truly rare event. The histogram we featured in our March 31, 2009 issue of **PERSPECTIVES** clearly showed 2008 was very near the worst all time. While **Beacon** has no "typical clients", the following table is representative of the peak-trough-current status for our clients. Our clients experienced portfolio declines from 10/9/07 (peak) to 3/9/09 (trough) in the range of -30% to -40% or so (depending on asset allocation). During this time the S&P 500 declined over 58%. Today our clients have about \$70 to \$80 relative to the \$100 they had at the market's peak, and it could take awhile to recover diminished capital (see below linear estimates in years; not a forecast):

| Key Dates        | S&P 500 (unmanaged index) | Value of \$100 from Peak | Beacon \$100 50 / 50 | Years to \$100 @ 6% | Years to \$100 @ 8% |
|------------------|---------------------------|--------------------------|----------------------|---------------------|---------------------|
| 10/9/07 (peak)   | 1,565                     | -                        | \$100                | -                   | -                   |
| 3/9/09 (trough)  | 648                       | \$41.40                  | \$66.50              | -                   | -                   |
| 5/1/09 (current) | 877                       | \$56.04                  | \$75.50              | 4.8 years           | 3.6 years           |



### WHY DIVERSIFICATION MATTERS

### ANNUAL RETURNS<sup>1</sup> 1989-2008

### Annual Returns of Key Indices

#### WHY DIVERSIFICATION<sup>2</sup> MATTERS

BEST-TO-WORST-PERFORMING INDICES, FROM 1989-2008

| 1989                           | 1990                           | 1991                            | 1992                          | 1993                           | 1994                            | 1995                            | 1996                          | 1997                          | 1998                          | 1999                           | 2000                            | 2001                           | 2002                            | 2003                          | 2004                           | 2005                          | 2006                          | 2007                           | 2008                           |
|--------------------------------|--------------------------------|---------------------------------|-------------------------------|--------------------------------|---------------------------------|---------------------------------|-------------------------------|-------------------------------|-------------------------------|--------------------------------|---------------------------------|--------------------------------|---------------------------------|-------------------------------|--------------------------------|-------------------------------|-------------------------------|--------------------------------|--------------------------------|
| Russell Top 200 Growth 37.68%  | BC U.S. Aggregate Growth 8.06% | Russell 2000 Value 51.19%       | Russell 2000 Value 29.14%     | MSCI EAFE Index 32.56%         | MSCI EAFE Index 7.78%           | Russell Top 200 Value 40.03%    | Russell Top 200 Value 25.57%  | Russell Top 200 Value 35.47%  | Russell Top 200 Value 45.10%  | Russell Top 200 Value 43.00%   | Russell 2000 Value 22.83%       | Russell 2000 Value 14.03%      | BC U.S. Aggregate Growth 10.25% | Russell 2000 Growth 48.54%    | Russell 2000 Value 22.25%      | MSCI EAFE Index 13.72%        | MSCI EAFE Index 26.53%        | Russell Top 200 Growth 12.15%  | BC U.S. Aggregate Growth 5.24% |
| S&P MidCap 400 Growth 38.55%   | S&P MidCap 400 Growth 1.37%    | S&P MidCap 400 Growth 50.30%    | S&P MidCap 400 Growth 18.41%  | Russell 2000 Value 23.77%      | Russell 2000 Value 4.85%        | S&P MidCap 400 Growth 38.65%    | S&P MidCap 400 Growth 22.96%  | S&P MidCap 400 Growth 33.78%  | S&P MidCap 400 Growth 28.58%  | Russell 2000 Value 29.68%      | S&P MidCap 400 Growth 17.51%    | BC U.S. Aggregate Growth 8.44% | Russell 2000 Value -11.43%      | Russell 2000 Value 47.25%     | MSCI EAFE Index 20.72%         | S&P MidCap 400 Value 12.56%   | Russell 2000 Value 23.48%     | MSCI EAFE Index 11.33%         | Russell 2000 Value -28.92%     |
| S&P 500 Index 31.69%           | S&P 500 Index -3.30%           | S&P 500 Index 46.05%            | S&P 500 Index 11.01%          | Russell 2000 Value 19.76%      | S&P 500 Index 1.32%             | S&P 500 Index 37.58%            | Russell 2000 Value 22.31%     | S&P 500 Index 33.36%          | Russell 2000 Value 21.24%     | MSCI EAFE Index 26.96%         | BC U.S. Aggregate Growth 11.63% | Russell 2000 Index 2.49%       | S&P MidCap 400 Index -14.51%    | Russell 2000 Value 46.03%     | Russell 2000 Index 18.33%      | S&P 500 Index 4.91%           | Russell 2000 Value 22.99%     | S&P MidCap 400 Index 7.08%     | Russell 2000 Index -33.79%     |
| Russell Top 200 Value 28.66%   | Russell Top 200 Value -3.67%   | Russell Top 200 Value 41.70%    | Russell Top 200 Value 9.07%   | Russell 2000 Value 18.91%      | Russell 2000 Value -1.54%       | Russell Top 200 Value 31.04%    | Russell Top 200 Value 21.37%  | S&P MidCap 400 Index 32.28%   | Russell 2000 Value 20.00%     | Russell 2000 Value 21.26%      | Russell Top 200 Value 2.32%     | S&P MidCap 400 Index -0.60%    | MSCI EAFE Index -15.80%         | MSCI EAFE Index 39.82%        | S&P MidCap 400 Value 16.48%    | Russell 2000 Value 4.71%      | Russell 2000 Value 18.37%     | Russell 2000 Growth 7.05%      | Russell Top 200 Growth -36.06% |
| S&P 2000 Growth 20.17%         | S&P MidCap 400 Growth -5.12%   | S&P 2000 Growth 39.40%          | S&P 2000 Growth 7.77%         | Russell 2000 Value 13.95%      | Russell 2000 Value -1.82%       | S&P MidCap 400 Growth 30.95%    | S&P MidCap 400 Growth 9.20%   | S&P 2000 Index 31.79%         | S&P MidCap 400 Index 10.11%   | S&P 500 Index 21.04%           | Russell 2000 Value -3.02%       | Russell Top 200 Value -8.79%   | Russell Top 200 Value -18.02%   | S&P MidCap 400 Value 35.63%   | Russell 2000 Growth 14.31%     | Russell Top 200 Value 4.60%   | S&P 500 Index 15.79%          | BC U.S. Aggregate Growth 6.07% | Russell Top 200 Value -36.09%  |
| Russell 2000 Index 16.26%      | Russell 2000 Index -17.41%     | Russell 2000 Index 30.47%       | S&P 500 Index 7.62%           | Russell 2000 Index 13.37%      | Russell 2000 Index -1.00%       | Russell 2000 Index 28.44%       | Russell 2000 Index 16.49%     | Russell 2000 Index 22.34%     | BC U.S. Aggregate Index 8.69% | Russell 2000 Index 14.72%      | Russell 2000 Index -9.10%       | Russell 2000 Index 0.23%       | Russell 2000 Index -20.48%      | S&P 500 Index 28.48%          | Russell 2000 Value 13.24%      | Russell 2000 Index 4.55%      | Russell 2000 Index 13.35%     | S&P 500 Index 5.49%            | S&P MidCap 400 Index -36.23%   |
| BC U.S. Aggregate Index 14.53% | Russell 2000 Index -19.51%     | Russell 2000 Index 18.16%       | BC U.S. Aggregate Index 7.40% | S&P 500 Index 10.08%           | Russell 2000 Index 2.43%        | Russell 2000 Value 25.75%       | Russell 2000 Index 11.28%     | Russell 2000 Index 12.95%     | Russell 2000 Index 1.23%      | Russell 2000 Value 10.95%      | MSCI EAFE Index -13.45%         | Russell 2000 Index -11.89%     | Russell 2000 Index -22.10%      | S&P 500 Index 26.75%          | BC U.S. Aggregate Index 10.88% | Russell 2000 Growth 4.15%     | S&P MidCap 400 Index 10.32%   | Russell 2000 Value 0.25%       | S&P 500 Index -37.00%          |
| Russell 2000 Value 12.43%      | Russell 2000 Value -21.77%     | BC U.S. Aggregate Growth 16.00% | Russell 2000 Growth 3.89%     | BC U.S. Aggregate Growth 9.75% | BC U.S. Aggregate Growth -2.92% | BC U.S. Aggregate Growth 18.47% | MSCI EAFE Index 6.08%         | BC U.S. Aggregate Index 9.68% | Russell 2000 Index -2.59%     | BC U.S. Aggregate Index -0.85% | Russell 2000 Value -22.43%      | Russell 2000 Growth -20.48%    | Russell 2000 Growth -27.98%     | Russell 2000 Value 26.63%     | BC U.S. Aggregate Index 4.34%  | Russell 2000 Growth 2.88%     | Russell 2000 Growth 8.66%     | Russell 2000 Index -1.57%      | Russell 2000 Growth -38.54%    |
| MSCI EAFE Index 10.53%         | MSCI EAFE Index -23.45%        | MSCI EAFE Index 12.13%          | MSCI EAFE Index -12.17%       | Russell Top 200 Growth -0.07%  | S&P MidCap 400 Index -3.58%     | MSCI EAFE Index 11.21%          | BC U.S. Aggregate Index 3.63% | MSCI EAFE Index 1.78%         | Russell 2000 Value -6.46%     | Russell 2000 Value -1.49%      | Russell Top 200 Index -24.53%   | MSCI EAFE Index -21.33%        | Russell 2000 Growth -30.26%     | BC U.S. Aggregate Index 4.10% | Russell Top 200 Growth 3.74%   | BC U.S. Aggregate Index 2.43% | BC U.S. Aggregate Index 4.33% | Russell 2000 Value -0.78%      | MSCI EAFE Index -43.28%        |

<sup>1</sup> S&P 500<sup>®</sup> Index measures the performance of large-capitalization U.S. stocks.  
<sup>2</sup> S&P MidCap 400<sup>®</sup> Index measures the performance of 400 medium-capitalization stocks.  
<sup>3</sup> Russell Top 200<sup>®</sup> Growth Index measures the performance of the growth style of investing in large-cap U.S. stocks.  
<sup>4</sup> Russell Top 200<sup>®</sup> Value Index measures the performance of the value style of investing in large-cap U.S. stocks.  
<sup>5</sup> Russell 2000<sup>®</sup> Index measures the performance of small-capitalization U.S. stocks.  
<sup>6</sup> Russell 2000<sup>®</sup> Growth Index measures the performance of the growth style of investing in small-cap U.S. stocks.  
<sup>7</sup> MSCI<sup>®</sup> EAFE Index measures the performance of the developed stock markets of Europe, Australia, Asia and the Far East.  
<sup>8</sup> Barclays Capital U.S. Aggregate Index measures the performance of U.S. government, corporate, and mortgage-backed securities with maturities of up to 30 years.