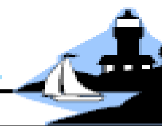

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About Beacon Financial Advisors Ltd.
Beacon is an independent fee-only advisor with a clear mission statement: To provide our clients long-term value-added financial counsel and investment performance with *exceptional service.* **Beacon** is an RIA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

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.

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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 Summary.

As the curtain is drawn on 2009 we'll take this opportunity to assess economic and investment developments impacting our clients' balanced, global portfolios. October 9, 2007 (the "high") began the global bear market in financial assets that witnessed the S&P 500 Index decline 58% to March 9, 2009 (the "low"). The only financial asset that gained in 2008 was US Treasury securities as many investors fled stocks and bonds after experiencing losses, pushing Treasury yields to record lows and lifting prices. As **Beacon** has previously written, these investors indiscriminately dumped stocks and bonds of all types to park their funds with the government in exchange for a near 0% return. During this difficult period stocks across the globe declined. Bonds (investment-grade) declined too, though not very much keeping intact the benefits of diversification. Nonetheless, **Beacon's** balanced, global portfolios declined more than normal during a bear market. **Beacon's** weekly PERPECTIVES ON INVESTING reminded clients about historical trends in bear-bull markets, emphasized the investment opportunities being created by the deluge in selling, and encouraged clients to **PERSEVERE** in their plans of balanced, global portfolios.

2009 began as a continuation of 2008's slaughter in stocks until March 9 at which time stocks across the US and the world staged a remarkable rally that is still unfolding. From March 9 to December 31 the S&P 500 Index rose about 65%. We reminded clients that financial assets like stocks and bonds normally begin to recover values well-before the economy turns around. Despite the awful start to 2009 the S&P 500 Index has returned over 26% for the total year. As will be depicted in your Investment Summary, all of **Beacon's** stock investment funds performed very well in 2009 with returns exceeding the S&P 500 Index—one sees almost a symmetrical reversal of losses in 2008 to gains in 2009. Focusing on bonds, total returns in 2009 have been remarkably high with Metropolitan West Total Return (MWTIX) and Dodge & Cox Income (DODIX) returning about 17% each. Mathematically speaking, these stock and bond returns are almost certainly not going to recur in 2010, especially for bonds (e.g. fixed income). So, what can we look forward to in 2010 and how are our portfolios positioned. We'll address that on page 2.

**PERSEVERANCE: continuing on a course of action without regard to discouragement…
…determination to adhere to a plan of direction…(Wiktionary)**

As we noted above many investors sold assets without distinction as to investment value and parked $Trillions on the sidelines. Some of that parked money returned to bonds, but almost none to stocks. As a result, they've missed a chance at substantial recovery. As we bring page 1 of this issue of VIEW to a close, we think it is appropriate to commend our clients for their **PERSEVERENCE.** **Beacon** did our best to underscore our investment guidelines about investing in tough times. As we've often noted, successful investors make their best investments in tough times, it just doesn't feel like it at the time (i.e. buy low, sell high). So, **Beacon** provided the **plan of direction** but it is you our clients that were successful to **continue on a course of action without regard to discouragement determined to adhere.**

Stocks experienced a dramatic 60%+ rise in the S&P 500 Index from the March 2009 lows after plummeting 58% from the October 2007 high, rendering that venerable benchmark still 29% underwater. With $Trillions still on the sidelines in money-market funds (earning well below 1% year), many investors are obviously skeptical about the sustainability of the robust stock market advance. Again, history may provide some guidance about expectations. Fidelity's Market Analysis & Research division assembled the chart below to compare and contrast this bear/bull cycle of 2007-2009 with over a dozen prior bear/bull cycles to 1929. The yellow highlight of the 2007-2009 bear/bull cycle shows the 60%+ Return in First Year column is more robust than most all the prior bear/bull periods (excepting 1929-1932). However, One-Year Round Trip column shows stocks still -29% underwater, compared to an average of –14% underwater. As the Return in First Two Years column shows, in 12 of 13 prior cycles stock returns in Year Two were still positive yet lower than Year One. Thus, while the best gains during bull cycles typically occur in Year One, this historical analysis shows the 2007-2009 bear/bull cycle is in line with prior ones in which stocks generally continued to advance.

Historical Stock Market Performance During and After Bear Markets (1929-2009)

Bear Markets	Bear Market Return	Return in First Year of New Bull Market	Return in First Two Years of New Bull Market	One-Year Round-trip (Bear & First Yr. of New Bull)	Two-Year Round-trip (Bear & First 2 Yrs. of New Bull)
1929-1932	-86%	169%	124%	-63%	-69%
1937-1942	**-60%**	**54%**	**59%**	**-39%**	**-36%**
1946-1949	-30%	42%	59%	0%	12%
1956-1957	-22%	31%	44%	3%	13%
1961-1962	-28%	33%	56%	-4%	13%
1966-1966	-22%	33%	42%	4%	10%
1968-1970	-36%	44%	60%	-8%	2%
1973-1974	**-48%**	**38%**	**67%**	**-29%**	**-13%**
1976-1978	-19%	13%	25%	-9%	1%
1980-1982	-27%	58%	62%	15%	18%
1987-1987	-34%	23%	57%	-18%	4%
1990-1990	-20%	29%	38%	3%	10%
2000-2002	**-49%**	**34%**	**45%**	**-32%**	**-26%**
2007-2009	-57%	64%*	?	-29%*	?
Average	-37%	46%	57%	-14%	-5%
Median	-30%	34%	57%	-8%	4%

*reflects March 9 to Dec. 1, 2009. **Bold** denotes bear market returns that are most similar in magnitude (-48% to -60%) to 2007-2009 bear market. Bull and bear markets defined as a 20% or more increase or decrease in the S&P 500 Index. Source: ISI, Bloomberg, FMRCo (MARE) as of 12/01/09.

Bonds also increased dramatically in 2009 with double-digit returns. Normally most all of the total return of a bond is attributable to it's interest payment. In 2009, over half the return from bonds were attributable to price gains. The price gains came about from a compression in yield spreads—in other words successful investors in 2009 picked up the bargains from selling investors in 2008. As we noted on page one, these price gains will almost certainly not be duplicated in 2010. So, today bond interest rates are much lower than one year ago but still much higher than money-market funds and inflation. So, there is still investment value in the taxable non-Treasury sectors of the US bond market (e.g. corporate and mortgages, etc.). In the non-taxable municipal marketplace, managers at Bernstein and Fidelity are evaluating state and local governments bonds at a time of large state budget deficits. Both contend they expect some ratings downgrades, but don't foresee material losses from municipal defaults as states and local governments have tools to contend with downturns.

Walls of worry abound. Consumers' recent propensity to save v. spend, expectation of higher US income tax rates, more financial regulation, stubbornly high US unemployment, scarcity of consumer credit, prospect of FED tightening (e.g. higher interest rates), terrorism, showdown with Iran—these are a few of the more prominent hurdles facing the US and global economy. And yet with all that backdrop, since March we've witnessed a substantial global economic recovery in which almost all countries and regions moved to positive GDP growth by 2009's 3rd and 4th quarters. As **Beacon** has spoken to our stock mutual fund partners and surveyed their portfolios, they're seeking opportunities in and out of the US, especially in developing (emerging) economies in Asia, the Near East, and Latin America. As to our US bond mutual fund partners, as we noted above they are focused on income-producing credit sectors including securities with floating interest rate features. As active managers, Dodge & Cox and MetWest expect higher interest rates and have active strategies to benefit accordingly. Beyond these major themes, Beacon is researching two tactical asset classes for possible portfolio inclusion in the future—real assets (commodities) and non-US debt, especially developing regions of the world economy. Stay tuned! ■