July 2012

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.

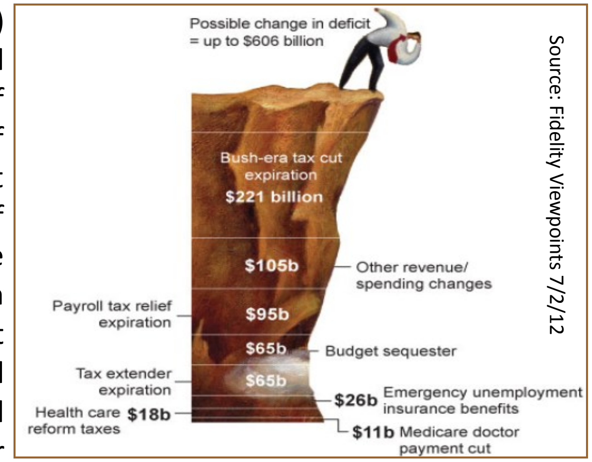
Beacon's Advisors

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.

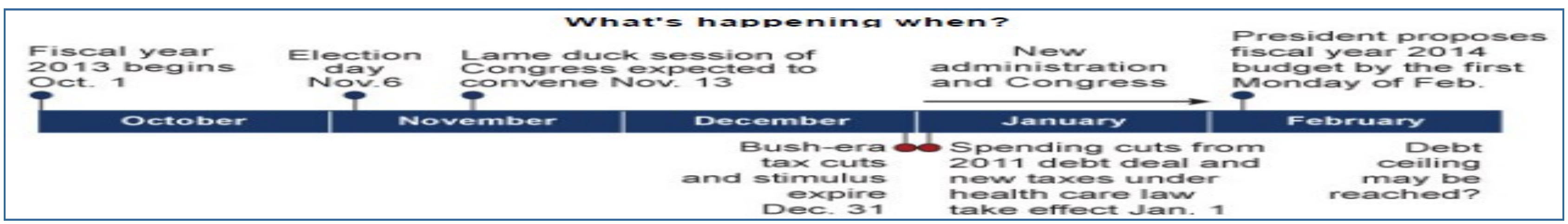
JOSH HEBERT has a B.S. in Accounting, an M.B.A., and is a Certified Internal Auditor (CIA) and a Certified Financial Planner (CFP) licensee.

Fiscal cliff

Fiscal cliff is the term de jour for economists and (some) politicians as 2013 approaches. It was even uttered by FED Chairman Ben Bernanke in testimony before Congress. Speaking of Congress, absent action by that august body, there are upwards of $600 billion of new taxes, expiring tax cuts, etc. set to occur (see chart right). Both government and private economists project a substantial "hit" to the US economy (e.g. GDP) if they all hit at once. Concerns weighted on investors in Q2 as stocks returned some of the strong Q1 returns (see chart p4). It's a major election year, and keen observers are guessing about the odds Congress will fail to act, or if they act what are their range of options and resulting impact on the economy and financial markets. It's beginning to look a lot like last summer's debt ceiling debate and credit downgrades. For much of the past year, **Beacon** has been presenting our clients multi-year income tax forecasts including 2013 (the "fiscal cliff" year). The tax increases come in multiple flavors for all income tax payers, starting with the increase in marginal tax brackets (expiration of so-called "Bush" era tax cuts) and the expiration of the payroll tax cut. For those clients with incomes above $200,000 / $250,000 (single / married), there are additional taxes in the form of Obamacare's 3.8% investment tax and 0.9% Medicare tax increase. Here is a pertinent timeline:



Source: Fidelity Viewpoints 7/2/12



> ***"Congress cannot compel you to do anything Congress wishes, but it can impose taxes on you until you finally have no rational alternative but to do whatever Congress wishes….Resolved: The government cannot make you eat broccoli, thought it may levy a non-broccoli-eating tax on any who refuse."***
>
> **Holman W. Jenkins, Jr. in THE WALL STREET JOURNAL of June 29, 2012**
>
> ***Writing about the US Supreme Court decision of the Affordable Care Act (aka Obamacare)***

Our STOCK and BOND Fund Partners 2012 Q2

STOCKS gave back some of their exceptional Q1 returns as investors witnessed a slowing US economy, the debt crisis in Europe, geopolitical risks in Iran and the middle east, and the "fiscal cliff" discussed on page 1. Despite all this, mid-year returns for stock investors was still quite respectable. Among **Beacon's** stock mutual funds half-year returns averaged about 8% or so.

Beacon contends the global stock market still represents solid value to long-term investors both on an absolute and relative value. The market still is priced on "fear" and not on "fundamentals". On an absolute basis, at quarter end the S&P 500 was priced at under 13X earnings (e.g. P/E ratio) versus a long-term average of 16X. On a relative basis, the earnings yield (e.g. E/P) of the S&P 500 is 7.75%, and the dividend is about 1.7%. More specifically, consider our long-held Dodge & Cox Stock (DODGX) is priced at just over 10X earnings, with an earnings yield of 10% and a dividend yield of 1.6%. Compare this to the quarter-end yield of the 10-year US Treasury at about 1.5%. The US Treasury is the *perceived* "sanctuary" investment when "fear" prevails as it does now—the so-called "flight to safety."

The key question we ask and answer at this juncture is: would we prefer to lend money to the US government for ten years at 1.5% when inflation is over 2% (negative real return), *or* invest in the world's greatest companies that pay a higher dividend, have upside potential, and for the past three years have grown their earnings at a clip faster than their stock prices have increased? For Beacon, it's not even a close call! We believe this "fear" environment has created compelling valuations and opportunities in stocks.

BONDS Overall **Beacon's** bond partners had solid Q2 gains extending the Q1 returns. In fact, Q2 served up another reminder of the portfolio benefits of diversification as positive bond returns helped offset the generally sour quarter for stocks (see column left). Our municipal partners AllianceBernstein and Fidelity performed very well, especially AllianceBernstein. In the US headline-news has been all about the few city bankruptcy filings in California, Alabama and Pennsylvania, including three California cities in three weeks (Mammoth Lakes, San Bernadino, and Stockton). But headline-news often fails to provide *context* critical for investor success. After all, there are nearly 90,000 units of state and local government in the US, yet in 2011 there were only 13 municipal bankruptcies, and thus far in 2012 only 6 bankruptcies, and virtually all the rest continue to meet their budget and legal obligations. An investor listening to headline-news has missed spectacular 2-year returns in tax-free bonds!

Both our municipal managers AllianceBernstein and Fidelity contend the overall municipal market is healthy and represents good investment value, especially state issues of essential service bonds (e.g. water, sewer), and local government issues backed by dedicated taxes. Relative to taxable government securities, the muni market is still attractively priced with 10-year munis yielding 101% of US agency bonds (long-term average is 79%). The 2013 "fiscal cliff" (see p1) has broadly positive implications for this asset class. The ObamaCare 3.8% investment tax *excludes* interest on municipal bonds in the calculation. And, with the Bush-era tax cuts set to expire in 2013 (increased tax rates on income) again tax-exempt municipal bonds could attract event more investor attention. Stay tuned!

In his TOTAL RETURN blog appearing in the 1/27/12 issue of THE WALL STREET JOURNAL, Jason Zweig asked some leading investors and financial thinkers: **Can you summarize your investing beliefs in no more than 10 or so words?** Here is a sampling of the responses from some of the very best at their craft.

If everybody wants it, I don't. Avoid crowds.

—Gus Sauter, chief investment officer, the Vanguard Group

Invest for the long term and ignore interim aggravation.

– Charles D. Ellis, director, Greenwich Associates, and author, "Winning the Loser's Game"

Control what you can: your savings rate, costs, and taxes.

– Don Phillips, president, fund research, Morningstar

Own competently managed, competitively advantaged businesses at discounted prices.

—O. Mason Hawkins, chairman and chief executive officer, Southeastern Asset Management

DO THE MATH. EXPECT CATASTROPHES. WHATEVER HAPPENS, STAY THE COURSE.

– William J. Bernstein, Efficient Frontier Advisors, and author, "The Four Pillars of Investing"

Fallible, emotional people determine price; cold, hard cash determines value.

—Christopher C. Davis, chairman, Davis Advisors and co-manager, Davis New York Venture Fund

Save. Invest long-term. Compounding returns builds. Compounding costs destroys. Courage!

–John C. Bogle, founder, the Vanguard Group

MARGIN OF SAFETY.

—Benjamin Graham, father of value investing and author of "The Intelligent Investor,"

Are you smarter than the average professional investor? Probably not.

– William F. Sharpe, emeritus professor of finance, Stanford University, and Nobel Laureate in economics

Spend less. Diversify globally. Own whatever's feared, shun whatever's beloved.

– Robert D. Arnott, chairman, Research Affiliates LLC

Plan for the worst. Hope for the best.

—Robert Rodriguez, managing partner, First Pacific Advisors

Determine value. Then buy low, sell high. ;-)

—David Herro, chief investment officer for international equities, Harris Associates, and manager of Oakmark International Fund

Okay, okay, THE WALL STREET JOURNAL didn't ask Beacon for our 10-word reply. But, if they did we'd say…..

Good investments are made *when* they don't seem good investments.

— Beacon Financial Advisors, Ltd. in "Balanced, Global Investing Using Mutual Funds"

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