October 2013

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.

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 FIRM BROCHURE (Form ADV, Part 2) is always available upon request.

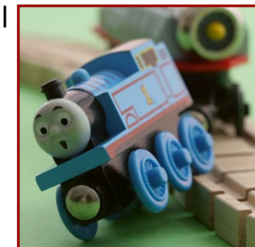
An important note: Where reference is made in VIEW to Beacon's relative performance, or individual mutual fund performance, it applies to fully invested portfolios for the period. Actual results vary among clients, as risk tolerance levels and the timing of asset purchases & sales are unique to each of our clients. Each client's unique results are revealed in the performance reports inside their Investment Review. Clients are urged to compare the custodians (Schwab Institutional et al) account statements with Beacons reports.

TRAIN WRECK...a nice catchy phrase heard from the national media these days. It is being used to describe what may occur in Washington D.C. in October if Congress fails to raise the national debt ceiling. You see, Uncle Sam has reached his legal limit to borrow money and needs to "increase his line of credit" or else the government will be deemed legally insolvent.

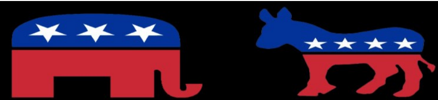
Unlike the annual appropriations related hang-ups, which give Uncle Sam a hang-over for a few days each October, this "train wreck" could cause a drunken stupor on Pennsylvania Avenue and spill over to Wall Street. You see, even social security checks and interest on Treasury bills, bonds and notes would be withheld from recipients...legally.

And what needs to be done to prevent this "train wreck" one might ask? Only that a Republican Congress and a Democratic President come to agree on legislation? Hmm...maybe we should all get ready for a loud crash.

Yogi Berra was right: It's like déjà-vu all over again! Or, if you prefer **Mark Twain**: History doesn't repeat itself, but it sure does rhyme! If **Beacon** hadn't inserted Autumn ***1995*** from our 18 year-old article excerpt above, one might easily assume we were describing the morning paper of October 1, ***2013!*** Under the category of it's like déjà-vu all over again!:



- Debt ceiling? **CHECK**
- Republican Congress (e.g. House)? **CHECK**
- Democratic President? **CHECK**
- HillaryCare, uh, ObamaCare? **CHECK**



GOP vs. Dem's: The STORM before the CALM!

D.C. shutdown notwithstanding, *don't shut down your long-term investing plan*! That is **Beacon's** counsel. Restated, don't overreact to the "drama" emanating from our nation's capital. It's possible the current shutdown, with the heated debate over the Treasury borrowing limit to follow, could result in near term volatility in financial markets. If our policymakers reenact their 2011 debacle and do not statutorily raise the federal debt ceiling in mid-October, the possibility of another credit rating downgrade looms as a "worst-case" scenario. On the debit side, the private sector continues it's steady recovery now in it's 5th year. Nominal equity valuations in the US are fair, and remain attractive in Europe and several emerging markets. While the US bond market has experienced more than a year of interest rate increases, recently the 10-year Treasury yield has retreated from 3% to 2.6%. We don't think making portfolio changes to clients' well-diversified portfolios is advisable due to D.C. "noise."

It's instructive to look back at prior government shutdowns, and how the financial markets responded. As noted on page 1, the most recent shutdown was in 1995 (recall President Clinton and House Speaker Gingrich as prime players). In fact, since 1976 there have been sixteen (16) instances of federal government shutdowns ranging from 1 to 21 days, with the average length about a week (6.75 days; see chart below left). If we exclude the 1970's, the average length is less at 3.9 days (see chart below right). Notably, as the chart below right shows the stock market has only been modestly impacted by government shutdowns. As previously noted, markets normally react to political intransigence with "I've seen this movie before." Still, the movie does need to be watched, especially the segment in mid-October about the debt ceiling. Stay tuned! ■

Federal Government Shutdowns/Funding Gaps: FY1977-FY2010

FY	Start Date	Full Day(s)	End Date
1977	Thursday, 09-30-76	10	Monday, 10-11-76
1978	Friday, 09-30-77	12	Thursday, 10-13-77
	Monday, 10-31-77	8	Wednesday, 11-09-77
	Wednesday, 11-30-77	8	Friday, 12-09-77
1979	Saturday, 09-30-78	17	Wednesday, 10-18-78
1980	Sunday, 09-30-79	11	Friday, 10-12-79
1982	Friday, 11-20-81	2	Monday, 11-23-81
1983	Thursday, 09-30-82	1	Saturday, 10-02-82
	Friday, 12-17-82	3	Tuesday, 12-21-82
1984	Thursday, 11-10-83	3	Monday, 11-14-83
1985	Sunday, 09-30-84	2	Wednesday, 10-03-84
1987	Thursday, 10-16-86	1	Saturday, 10-18-86
1988	Friday, 12-18-87	1	Sunday, 12-20-87
1991	Friday, 10-05-90	3	Tuesday, 10-09-90
1996	Monday, 11-13-95	5	Sunday, 11-19-95
	Friday, 12-15-95	21	Saturday, 01-06-96

Most Prior Shutdowns Have Had only a Modest Effect on S&P 500 Index Returns

Shutdown	Length (Days)	1 Month Prior (%)	2 Weeks Prior (%)	During (%)	2 Weeks After (%)	1 Month After (%)
11/20/1981	2	1.2	–0.8	–0.1	3.0	0.6
9/30/1982	1	2.8	–2.7	1.3	9.5	12.7
12/17/1982	3	–0.3	–0.9	0.8	2.0	3.8
11/10/1983	3	–4.8	–0.3	1.3	0.0	–2.0
9/30/1984	2	–0.3	–1.6	–2.2	1.0	3.1
10/3/1984	1	–2.5	–2.7	0.1	3.2	3.6
10/16/1986	1	3.4	2.4	–0.3	2.2	–0.9
12/18/1987	1	1.5	11.3	0.0	–0.8	–2.6
10/5/1990	3	–4.0	0.1	–2.1	2.4	2.8
11/13/1995	5	1.3	1.6	1.3	1.2	2.0
12/15/1995	21	3.8	1.5	0.1	–0.8	4.8
Avg. since 1981	3.9	0.2	0.7	0.0	2.1	2.5

Historical analysis does not guarantee future results. It is not possible to invest in an index.
Source: FactSet, Standard & Poor's and AllianceBernstein

Our STOCK and BOND Fund Partners 2013 Q3

After a brief slump in June, US **stocks** resumed their northward trajectory as the S&P 500 advanced over 5% in Q3 bringing the index's 9-month return to nearly 20%. Overall it has been an impressive 4-1/2 year period for US **stocks** including the past year in the face of rising US interest rates and ever-present political and geopolitical developments (e.g. Egypt, Syria, et al). Q3 was even more impressive for non-US **stock** markets as the MSCI-EAFE Index advanced over 11% as Europe seems to be coming out of recession. **Beacon's** core stock fund partners also advanced in Q3 as the chart on page 4 reveals. Year-to-date gains were from the mid-teens to mid-twenties.

On a forward looking basis, US **stocks** are no longer as cheap as they were say, a year ago. Today, valuations (based on earnings) are about in line with long-term averages—not too hot, not too cold. And, the combination of terrific corporate balance sheets (low debt, high cash balances) and nominally low interest rates are supportive of today's **stock** prices. Finally, even though the DJIA and S&P 500 indexes have surpassed all-time highs **stocks** remain more attractive on a fundamental basis than at prior peaks. Non-US **stocks**, especially in Europe, have become very inexpensive. We think that has become more apparent to investors and, as noted above, the MSCI-EAFE's 11%+ Q3 more than doubled the stellar Q3 of the US S&P 500. On a comparative basis, **stocks** compete for investors' cash with **bonds** and even with the recent increase in interest rates **bond** yields are still historically quite low. Against that bond backdrop, **stocks** remain very attractively valued versus **bonds**.

Turning to **bonds**, following the abysmal Q2 results Q3 was a mixed bag for US and international **bonds** (denominated in $US). With a modest retreat in interest rates from a high of 3% on the US 10-year Treasury to 2.6% today, most sectors enjoyed modest gains in Q3 as depicted in the 1/2% gain in benchmark Barclays Capital Aggregate Bond index. Year-to-date **bonds** continue to be the ***millstone*** in a diversified portfolio in which **stocks** have soared (see above). But certain key sectors of the **bond** market, notably tax-exempt municipal **bonds**, are showing positive momentum of late. Our page 1 article in Q2 VIEW discussed the **bond** market overreaction to FED Chairman Ben Bernanke's comments about tapering monetary policy. Throw in the July 18 Chapter 9 bankruptcy filing by the city of Detroit (largest ever by a US city), and a few articles sour on the fiscal outlook of the commonwealth of Puerto Rico, and the municipal market had a mini-bear market early in Q3. But, September witnessed a strong rally in municipal **bonds** and especially in high yield tax-exempts. For example, our high-yield municipal partner ABTYX returned nearly 4% just in September (ABTYX still is down YTD). Overall municipal mutual fund redemptions went from a river to a trickle by end of Q3, and new issuance continues to be light. According to research by Nuveen, high yield municipal mutual fund inflows were positive for the final two weeks of September. This suggests investors are recognizing the relative attractiveness of the tax-exempt sector of the **bond** market as Treasury yields have retreated (see statement above) and high income taxpayers have awakened to the realization that municipal **bond** interest is not subject to the ObamaCare-related taxes in the income tax code. In a low interest rate world, good active **bond** managers performing diligent research is the best chance to beat inflation, the tax man, and serve as a diversified portfolios' anchor-to-windward. ■

Bond Investor in 2013