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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 a Registered Investment Advisor with the US Securities and Exchange Commission.

Beacon's Advisors
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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 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.

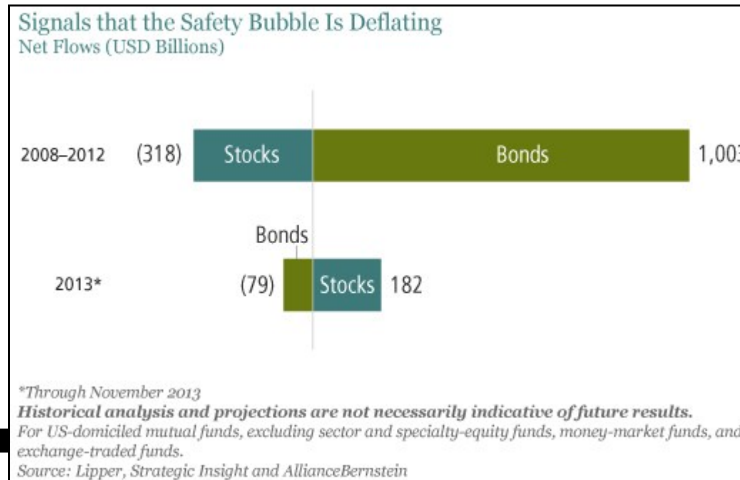
"Because we were in it to win it."

- Jimbo Fisher, coach of the Florida State Seminoles, answering a reporters' question about why he called a [risky] fake punt on 4th down before halftime trailing Auburn 21—3 in the NCAA football championship game.

If at the dawn of 2013 ten investors were told US interest rates would rise sharply, income tax rates would increase, and new tax levies would be enacted, we suspect at least the majority would predict stocks would have a rough ride. And they would have been wrong. The US stock market has soared since March 2009 but most investors were preoccupied with retreating from the stock market and assembling hoards of cash and bonds. As the chart below reveals, investors *added* over $1 trillion to *bonds* and *withdrew* over $300 billion from stocks. Only in 2013 as interest rates rose sharply in Q2 (clipping the value of bonds) did investors begin to tepidly return to stocks. Nonetheless, much of the "mattress money" [aka "safety bubble"] remains on the sidelines. We still await the "great rotation".

Seth Masters is Chief Investment Officer of Bernstein Global Wealth Management. In his 12/15/13 blog Lessons Learned in 2013 Masters wrote: *"Before starting to place bets for 2014, investors would be wise to think about some important lessons from 2013."*

1. **You Have to Be in it to Win It**—we don't think Coach Fisher (see quote above) had Masters' blog in mind, but the lesson is the same: If an investors' portfolio is to *enjoy* stock returns, it must be *in* stocks. Sure there are times some stock market returns are poor, but portfolio diversification in different stock markets and asset classes can moderate that risk (see #3 below).
2. **If You Run with the Crowd, You Can Get Trampled**—perceived "safe" investments have been anything but. Cash returns nothing, less after inflation. Bonds had negative returns in 2013 (see page 6), and high-yield stocks lost ground after the Q2 interest rate rise.
3. **Diversification Means Owning Some Things That Underperform**—Masters' reminds that asset classes take turns leading or lagging. In 2013 emerging market stocks had losses while the S&P 500 returned 30%+. Diversification also means always owning some of the best performers while limiting exposure to the worst. Master's writes: *"To capture the strongest returns no matter where they may appear, investors need to maintain exposure to stocks in all the key regions. For us, 2013 shows that diversification still matters a lot."* **More on page 2!**



Asset Allocation matters-a lot! On p. 3 **Beacon** writes that the S&P 500 Index returned over 30% in 2013, and clients' diversified portfolio returns ranged from 7% to 20% (low conservative to high aggressive). Why the big difference? *First*, among stock markets the world was very divergent. In the chart below under the 2013 column, the **green-box S&P 500** is in 2nd place followed by the **brown-box MSCI-EAFE** in 3rd—all developed economy stock markets. But, the lavender-box MSCI-EME of emerging market stocks was near the bottom with a loss. *Second*, with interest rates rising, bonds mostly lost ground as depicted by the **orange-box Barclays Capital Aggregate Bond Index**. *Third,* inside the bond market municipal bonds had a tough year as headline events like Detroit and Puerto Rico set off a selling spree (not shown on chart below). *Fourth and finally*, after several years of outsized returns the alternatives **REIT's** and **Commodities** (**burgundy** and **gray** boxes) both retreated. So, in 2013 it was a one-pony show as developed market stocks pulled the cart. But if we consider the ten years ended 2013, the chart clearly reveals the benefits and purpose of Asset Allocation. Recall this decade included the "Great Recession" of 2007-2009 producing the second worst stock market result since the "Great Depression." Asset Allocation delivered a 100% cumulative return for a solid 7.2% annual return. On p. 1 we wrote diversification (aka Asset Allocation) also means always owning some of the best performers while limiting exposure to the worst. The Asset Allocation boxes clearly produced that result in each of the ten years. Sometime ago a wise fellow named King Solomon wrote: ***"Divide your investments among many places, for you do NOT know what risks might lie ahead."*** Ecclesiastes 11:2 (New Living Translation)

2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	4Q13	10-yrs. '04 - '13 Cum.	Ann.
REITs 31.6%	MSCI EME 34.5%	REITs 35.1%	MSCI EME 39.8%	Barclays Agg 5.2%	MSCI EME 79.0%	REITs 27.9%	REITs 8.3%	REITs 19.7%	Russell 2000 38.8%	S&P 500 10.5%	MSCI EME 197.7%	MSCI EME 11.5%
MSCI EME 26.0%	DJ UBS Cmdty 21.4%	MSCI EME 32.6%	DJ UBS Cmdty 16.2%	Cash 1.8%	MSCI EAFE 32.5%	Russell 2000 26.9%	Barclays Agg 7.8%	MSCI EME 18.6%	S&P 500 32.4%	Russell 2000 8.7%	Russell 2000 138.3%	Russell 2000 9.1%
MSCI EAFE 20.7%	MSCI EAFE 14.0%	MSCI EAFE 26.9%	MSCI EAFE 11.6%	Market Neutral 1.1%	REITs 28.0%	MSCI EME 19.2%	Market Neutral 4.5%	MSCI EAFE 17.9%	MSCI EAFE 23.3%	MSCI EAFE 5.7%	REITs 128.5%	REITs 8.6%
Russell 2000 18.3%	REITs 12.2%	Russell 2000 18.4%	Market Neutral 9.3%	Asset Alloc. -24.0%	Russell 2000 27.2%	DJ UBS Cmdty 16.8%	S&P 500 2.1%	Russell 2000 16.3%	Asset Alloc. 14.9%	Asset Alloc. 4.6%	S&P 500 104.3%	S&P 500 7.4%
Asset Alloc. 12.5%	Asset Alloc. 8.3%	S&P 500 15.8%	Asset Alloc. 7.4%	Russell 2000 -33.8%	S&P 500 26.5%	S&P 500 15.1%	Cash 0.1%	S&P 500 16.0%	Market Neutral 7.9%	Market Neutral 3.8%	MSCI EAFE 104.1%	MSCI EAFE 7.4%
S&P 500 10.9%	Market Neutral 6.1%	Asset Alloc. 15.2%	Barclays Agg 7.0%	DJ UBS Cmdty -35.6%	Asset Alloc. 22.2%	Asset Alloc. 12.5%	Asset Alloc. -0.6%	Asset Alloc. 11.3%	REITs 2.9%	MSCI EME 1.9%	Asset Alloc. 100.1%	Asset Alloc. 7.2%
DJ UBS Cmdty 9.1%	S&P 500 4.9%	Market Neutral 11.2%	S&P 500 5.5%	S&P 500 -37.0%	DJ UBS Cmdty 18.9%	MSCI EAFE 8.2%	Russell 2000 -4.2%	Barclays Agg 4.2%	Cash 0.0%	Cash 0.0%	Market Neutral 62.7%	Market Neutral 5.0%
Market Neutral 6.5%	Russell 2000 4.6%	Cash 4.8%	Cash 4.8%	REITs -37.7%	Barclays Agg 5.9%	Barclays Agg 6.5%	MSCI EAFE -11.7%	Market Neutral 0.9%	Barclays Agg -2.0%	Barclays Agg -0.1%	Barclays Agg 56.0%	Barclays Agg 4.5%
Barclays Agg 4.3%	Cash 3.0%	Barclays Agg 4.3%	Russell 2000 -1.6%	MSCI EAFE -43.1%	Market Neutral 4.1%	Cash 0.1%	DJ UBS Cmdty -13.3%	Cash 0.1%	MSCI EME -2.3%	REITs -0.2%	Cash 17.1%	Cash 1.6%
Cash 1.2%	Barclays Agg 2.4%	DJ UBS Cmdty 2.1%	REITs -15.7%	MSCI EME -53.2%	Cash 0.1%	Market Neutral -0.8%	MSCI EME -18.2%	DJ UBS Cmdty -1.1%	DJ UBS Cmdty -9.5%	DJ UBS Cmdty -1.1%	DJ UBS Cmdty 9.0%	DJ UBS Cmdty 0.9%

CHART FROM J.P. MORGAN ASSET MANAGEMENT 2014 Q1 GUIDE TO THE MARKETS - PAGE 58

"Asset Allocation" portfolio assumes the following weights: 25% S&P 500, 10% Russell 2000, 15% MSCI EAFE, 5% MSCI EMI, 25% Barclays Capital Aggregate, 5% Barclays 1-3m Treasury, 5% CS/Tremont Equity Market Neutral Index, 5% DJ UBS Commodity Index, 5% NAREIT Equity REIT Index.

Our STOCK and BOND Fund Partners for 2013

STOCKS were spectacular in global developed markets—the S&P 500 Index had a total return over 30%, and the non-US developed markets gained a respectable 22%. In both the US and non-US markets, among **Beacon's** core funds, Dodge & Cox (San Francisco) led the way. Dodge & Cox Stock (DODGX) returned 40.5% and presently holds 72 companies in the portfolio. Dodge & Cox International Stock (DODFX) rose over 26% with an 82-company portfolio.

For the second consecutive year Dodge & Cox was named a final-5 nominee for Morningstar's Fund Manager of The Year for both Domestic (US) funds and the International (non-US) funds. Considering there are thousands of funds in each category, this is elite recognition for outstanding performance. Here is part of what Morningstar wrote about DODGX and DODFX (note the stated or implicit emphasis on *patience* for diligent research to payoff):

DODGX—Dodge & Cox is on track for it's second-consecutive top-decile showing in the large-value category. After poor results during the financial crisis (i.e. 2008), this team has largely redeemed itself….Despite occasional hiccups, Dodge & Cox practices thoughtful, deliberate value investing, and this fund benefits from one of the deepest, most consistent investment teams in the business. Shareholders willing to ride out the bouts of underperformance that come with contrarian stock-picking have been rewarded over the long term.

DODFX—This group won Morningstar's International-Stock Fund Manager of the Year for 2004. These managers tend to be patient in their investing...with a willingness to wait for troubled companies to turn things around. That paid off in 2013 with...Nokia in particular as it suffered numerous travails and the stock price sank. [Dodge & Cox] stuck with Nokia and even added to their stakes at lower prices. They (and shareholders) were rewarded when Nokia doubled in value last year. Equally noteworthy was the managers' willingness to make South African Internet company Naspers, Ltd. their top holding with over 4%...Naspers rose more than 100% in 2013 after a 50% gain in 2012.

BONDS were portfolio laggards in 2013 as the broad US Barclays Capital Aggregate Bond Index returned (-2.0%). As **Beacon** has written in each quarterly issue of VIEW for 2013, bond prices fell as US interest rates rose sharply (e.g. US 10-year Treasury yield rose from 1.4% to 3.0%). But, interest rates are rising in large part because the US economy is gaining steam. Despite the tough year for fixed income, two of **Beacon's** managers were cited by Morningstar as final-5 nominees for Fixed-Income Manager of the Year: Dodge & Cox Income (DODIX) and Metropolitan West Total Return (MWTIX). Here is part of what Morningstar wrote about our managers:

DODIX—Dodge & Cox's seasoned...managers 0.6% gain during 2013's challenging bond market conditions...modest in absolute terms, it looks impressive compared with Barclay's Capital Aggregate Bond benchmark's (-2%). The fund...works off a 3-5 year investment horizon, and its patience with a number of long-term themes positioned the fund for 2013's rocky market. Over longer periods of time, the fund...impressive track record...the fund's stable and long-tenured investment team and thoughtful investment process bode well for its long-term prospects.

MWTIX—This team won the Fixed-Income Manager of the Year award in 2005 and have been nominated multiple times in the past...The managers' methodical approach and value discipline has delivered time and again over the years, resulting in a stellar long-term record that has rewarded investors handsomely.

Overall 2013 was rewarding for our balanced, global portfolios. Conservative clients' total returns ranged 7% to 10%, and moderate/aggressive clients had returns in the 10% to 20% range. Even though **stocks** vastly outperformed **bonds**, in 2013 we did not perform any major portfolio rebalancing. We continue our view the economic outlook and valuations favor **stocks** versus **bonds**, so *major* rebalancing is *not* imminent. ■

In the WEEKEND INVESTOR section in the 1/6/14 issue of THE WALL STREET JOURNAL, journalist Jason Zweig (el al) asked some leading investors and financial thinkers: *What is the best financial advice you ever got (or gave)?* Here is a sampling of the responses from some of the very best at their craft.

Favor value stocks (i.e. undervalued, overlooked).

—Robert Shiller, Nobel laureate in economics (2013) and Yale University professor
(advice from Professor Franco Modigliani in 1980)

Price yourself high and see what happens.

-Scott Adams, creator of 'Dilbert' and author of 'How to Fail at Almost Everything and Still Win Big'
(Advice to himself)

Be straightforward, upfront and honest…with people's finances and…in life generally.

– Hal Steinbrenner, co-chairman of the New York Yankees
(Advice from his father George Steinbrenner)

An investor should think like a business owner, not a renter. The values of businesses don't change as quickly as stock prices do. Don't watch those changes hawklike day after day.

—Joe Mansueto, chief executive of financial research firm Morningstar
(Advice to himself)

BE AN OWNER. GO OUT AND START YOUR OWN BUSINESS.

–Charles Schwab, chairman of Charles Schwab Corp.
(Advice from a friend)

In securities markets, don't expect a free lunch; broadly diversify and keep your costs low.

—William Sharpe, Nobel laureate in economics (1990) and Stanford University professor
(Advice he has given to others)

Do not buy a financial product that you do not understand from a person who couldn't explain it so that you could understand. Think Madoff!

–Sally Krawcheck, former senior executive at Bank of America and Citigroup and Sanford C. Bernstein
(Advice given to others)

Pay off your debt first. Freedom from debt is worth more than any amount you can earn.

—Mark Cuban, owner of the Dallas Mavericks
(Advice he has given to others)

When friends and acquaintances are telling you [that] you are a genius, before you accept their opinion, take a moment to remember what you always thought of their opinions in the past.

– Carl Icahn, activist investor
(Advice to himself)

The strategy to get rich is entirely different from the strategy to stay rich, which is to minimize risks, diversify those risks we take, keep cost low, tax efficiency high, and don't spend too much.

– Larry Swedroe, director of research, Buckingham Asset Management
(Advice he was taught)

Okay, so THE WALL STREET JOURNAL didn't ask KING SOLOMON for the best advice he ever got (or gave). But, we know he'd say…

Divide your investments among many places, for you do not know what risks might lie ahead.

— King Solomon in Ecclesiastes 11.2
(New Living Translation)