Beacon Financial Advisors, Ltd.

January 2015

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.

All of us at one time or other has experienced a "back seat" driver—the wise sage that tells you what you should have done. Finance journalists are the investment world's version of "back seat" drivers—they are OBSERVERS. Journalists interview economists, market strategists, and investment advisors—the PERFORMERS—and elicit forecasts and predictions about future outcomes. Then afterwards the journalists get to tell the world just how wrong the savants actually were! And the journalists get paid for their "work"—a pretty good gig if you ask us.

At the start of 2014, the "consensus" of economic forecasters was that the US Federal Reserve Board ("FED") would end quantitative easing ("QE"), interest rates would rise, and energy prices would likely increase as global economic growth reached "escape velocity". Regarding interest rates, the US 10-year Treasury began 2014 near 3% and would end the year closer to 3.5%. Well, the "consensus" was mostly wrong is a very big way as interest rates actually declined—the 10-year Treasury is now below 2% and energy prices have crashed. **BEACON** is reminded of the satirical definition of an economist/statistician: a person with his head in an ice box and feet in an oven saying that on the average he feels fine!

2015 TEN PREDICTIONS

from your Favorite Forecaster

Access predictions

On numerous occasions **BEACON** has been contacted by finance journalists to comment/predict on a wide range of subjects from stock returns to tax policy. We have always declined because we are not in the prediction business and because we've learned that investing is difficult business as investment outcomes are largely unpredictable—need proof? Turn to page 2 for graphic evidence that investment markets are continuously changing. It's not to say we lack convictions—we don't. After all, we get paid for investment results that depends in part on unpredictable investment outcomes. **BEACON** is not clairvoyant and we take the "long view". Our forward-looking analysis puts forth our best research, thinking and judgment, but is never a prediction. ■

Asset Allocation matters—a lot! The S&P 500 Index returned over 13% in 2014, and **Beacon's** clients' diversified portfolio total returns ranged from 6% to 9% (low conservative to high aggressive). What were the major asset class divergences? *First*, among stock markets the world was again very non-correlated. In the chart below under the 2014 column, the **green-box S&P 500** was in 2nd place while by the **brown-box MSCI-EAFE** and the **lavender-box MSCI-EME** of emerging market stocks were near the bottom due to the surging US dollar. *Second*, with interest rates declining (to great surprise), bonds mostly gained ground as depicted by the **orange-box Barclays Capital Aggregate Bond Index**. *Third,* inside the bond market municipal bonds had a terrific year as the Barclays Municipal Index returned over 9% (not shown on chart below). *Fourth and finally*, the alternatives **REIT's** and **Commodities** (**burgundy** and **gray** boxes) went in wildly opposite directions—1st and last respectively. So, in 2014 it was another year for thoughtful asset allocation to prove beneficial. If we consider the ten years ended 2014, 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 91.7% cumulative return for a solid 6.7% annual return (circled). Real diversification (aka Asset Allocation) means always owning some of the best performers while limiting exposure to the worst. The Asset Allocation boxes clearly produced that *smoothing* 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)

2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	4Q14	10-yrs. '05 - '14 Cum.	Ann.
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%	REITs 28.0%	REITs 12.9%	MSCI EME 132.0%	MSCI EME 8.8%
Bberg Cmdty 21.4%	MSCI EME 32.6%	Bberg 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%	S&P 500 13.7%	Russell 2000 9.7%	REITs 122.3%	REITs 8.3%
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%	Barclays Agg 6.0%	S&P 500 4.9%	Russell 2000 111.3%	Russell 2000 7.8%
REITs 12.2%	Russell 2000 18.4%	Market Neutral 9.3%	Asset Alloc. -24.0%	Russell 2000 27.2%	Bberg Cmdty 16.8%	S&P 500 2.1%	Russell 2000 16.3%	Asset Alloc. 15.0%	Asset Alloc. 5.2%	Asset Alloc. 2.0%	S&P 500 109.5%	S&P 500 7.7%
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 9.3%	Russell 2000 4.9%	Barclays Agg 1.8%	Asset Alloc. 91.7%	Asset Alloc. 6.7%
Market Neutral 6.1%	Asset Alloc. 15.2%	Barclays Agg 7.0%	Bberg Cmdty -35.6%	Asset Alloc. 22.2%	Asset Alloc. 12.5%	Asset Alloc. -0.6%	Asset Alloc. 11.3%	REITs 2.9%	Cash 0.0%	Market Neutral 1.0%	MSCI EAFE 61.5%	MSCI EAFE 4.9%
S&P 500 4.9%	Market Neutral 11.2%	S&P 500 5.5%	S&P 500 -37.0%	Bberg Cmdty 18.9%	MSCI EAFE 8.2%	Russell 2000 -4.2%	Barclays Agg 4.2%	Cash 0.0%	Market Neutral -0.5%	Cash 0.0%	Barclays Agg 58.4%	Barclays Agg 4.7%
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%	MSCI EME -1.8%	MSCI EAFE -3.5%	Market Neutral 54.0%	Market Neutral 4.4%
Cash 3.0%	Barclays Agg 4.3%	Russell 2000 -1.6%	MSCI EAFE -43.1%	Market Neutral 4.1%	Cash 0.1%	Bberg Cmdty -13.3%	Cash 0.1%	MSCI EME -2.3%	MSCI EAFE -4.5%	MSCI EME -4.4%	Cash 15.7%	Cash 1.5%
Barclays Agg 2.4%	Bberg Cmdty 2.1%	REITs -15.7%	MSCI EME -53.2%	Cash 0.1%	Market Neutral -0.8%	MSCI EME -18.2%	Bberg Cmdty -1.1%	Bberg Cmdty -9.5%	Bberg Cmdty -17.0%	Bberg Cmdty -12.1%	Bberg Cmdty -17.1%	Bberg Cmdty -1.9%

CHART FROM J.P. MORGAN ASSET MANAGEMENT 2015 Q1 GUIDE TO THE MARKETS - PAGE 56

"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 2014

STOCKS were divergent in global developed markets, and much had to do with a strengthening US$—the S&P 500 Index had a total return over 13%, yet in the ten (10) major industry categories were large gaps as utilities gained 29% while energy lost -8% (see chart below with industry weightings on top and industry returns on bottom). The non-US developed markets declined more than -4% (MSCI-EAFE). All of the decline in non-US markets was due to the *currency exchange* as the US $ gained strength, to wit: in local dollars (i.e. home currency) the MSCI-EAFE gained over 6%!. A similar story played out in stocks of emerging markets with 5.6% / (2%) local / US$ returns.

For the third consecutive year Dodge & Cox was named a final-5 nominee for Morningstar's Fund Manager of The Year for 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 DODFX: *This group won Morningstar's International-Stock Fund Manager of the Year for 2004, and also nominated last year. The managers...are highly experienced...**are very patient...willing to wait years** for troubled companies, or companies whose prices have been hit hard for reasons [they] deem short-term in nature, **to turn things around**.*

2014 was a year in which the S&P 500 Index had a higher total return than most all of **BEACON'**s actively-managed US stock fund partners. Like DODFX we are very patient because we know that markets can be volatile in the short term so we encourage our clients to remain focused on the long term.

	Financials	Technology	Health Care	Industrials	Energy	Cons. Discr.	Cons. Staples	Telecom	Utilities	Materials	S&P 500 Index
S&P Weight	16.6%	19.7%	14.2%	10.4%	8.4%	12.1%	9.8%	2.3%	3.2%	3.2%	100.0%
2014	15.2	20.1	25.3	9.8	-7.8	9.7	16.0	3.0	29.0	6.9	13.7

BONDS in 2014 bonds nearly kept pace with stocks especially in the municipal sector—Barclays Capital Municipal & Aggregate Bond Indexes returned 9% and 6% respectively. As **Beacon** noted on p. 1, the *decline* in US interest rates surprised and bonds enjoyed a solid year (bond prices move opposite changes in interest rates).

The AllianceBernstein High Income Municipal fund (ABTYX) returned over 17%, while it's sibling ALTVX returned over 10%. *Sometimes to gauge success in investing we need to reflect on the recent past*. In the 2013 Q2 VIEW we wrote about all the negative bond returns as Detroit, Puerto Rico, and other municipal bankruptcies made for catchy "headlines." This is what we wrote on p.3 of the 2013 Q2 VIEW:

> The municipal bond sector had a rough two-month stretch, despite improving conditions at the state and local levels, as fears of rising interest rates drove selling of bond funds. AllianceBernstein thinks the higher interest rates will attract institutional money managers that are crossing over from taxable bonds to take advantage of the inexpensive values in the municipal market. AllianceBernstein and Fidelity are both constructive on select municipal bonds on both a relative and longer-term basis. With bonds, time tends to heal, because earning higher interest rates has historically overwhelmed price declines. We expect to recover those Q2 losses sooner or later. Plus, bonds are the *"anchor to windward"* for temperamental stocks, as the chart on the left reminds us all. ■

We cite this year-over-year reversal because an all-to-common theme in successful investing is that the "long-view" is eventually rewarded.

Overall 2014 was rewarding for our balanced, global portfolios. Clients' total returns ranged 6% to 9%. In a year in which **stocks** and **bonds** had similar total returns, **BEACON** did not perform major rebalancing. We continue our view the economic outlook and valuations favor **stocks** versus **bonds**, so *major* rebalancing is *not* imminent. ■