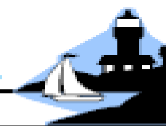


October 2015

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 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.

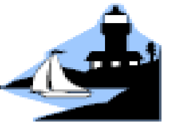
An important note: Where reference is made in *VIEW* to BEACON'S relative performance, or individual mutual fund performance, it applies to fully invested portfolios for the period. Actual results vary among clients, as risk tolerance levels and the timing of asset purchases & sales are unique to each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

EVERYTHING IS AWESOME: No, But Everything Is Not Awful Either

If you have grade school children or grandchildren you may recognize the refrain from the song "Everything Is Awesome" in the 2014 animated adventure comedy The Lego Movie—*"Everything is awesome, everything is cool when you're part of a team. Everything is awesome, when you're living out a dream."* That melodic refrain does not, however, sum up the sentiment of investors looking at their 2015 Q3 brokerage statements—"*Everything is awful*" seems more appropriate and was the byline in THE WALL STREET JOURNAL'S 9/1/15 "Market's" section (as **BEACON** wrote in that day's *Investment MEMO*—REFLECTIONS ON AUGUST: *Rain, Wild Fires, & a Stock Slump).* On 9/17/15 the US Federal Reserve ("FED"), expressing concern about global crosscurrents (i.e. China), left intact ZIRP (aka Zero Interest Rate Policy; see **BEACON'S** 9/15/15 *Investment MEMO*—READY FOR 'THE' BIG GAME: *What Big Game You Ask?).* Even Emmet Brickowski fared poorly in Q3! ⇨

Emmet Brickowski, Worker
"Yikes, my 401k is down!"

But, is everything awful? In a word, no. History is ripe with periods of stock corrections (or worse) that precede price recoveries to new highs. We've experienced several "corrections" since March 2009 when stock prices bottomed during the "Great Recession." A typical precursor to a retreat in stock prices is an economic recession (or contraction) brought on by FED actions that lessen available credit to slow an overheated economic expansion or asset "bubble". While the FED may soon move away from ZIRP it will not be to slow a red-hot economy, and the US bond market has already moved ahead of the FED (higher credit spreads, for one). On p. 2 of our 9/1/15 *Investment Memo* we emphasized the silver linings in the US economy that portend a recession is not imminent. FED monetary policy will still be accommodative even when they depart from ZIRP. Government spending (as a % of GDP) has declined since 2012, US financial companies (including banks, brokerages, and insurance companies) are better capitalized and mark-to-market accounting rules have been relaxed (a subject for another time). US industrial companies have exceptionally strong balance sheets loaded with liquidity (Apple has $147 billion in cash!). And, the US consumer—the chief driver of the US economy—has the lowest debt service to after-tax income in over 30 years. The US remains, as Fidelity's Jurrien Timmer recently wrote, "*the best house in a bad neighborhood*." All that said, stock price volatility* is up (*CBOE Volatility Index or VIX). So too, the bond market isn't waiting on the FED to move off ZIRP—in recent months credit spreads have widened raising the cost of corporate financing, and the US$ dollar has strengthened serving to moderate inflation-expectations *yet* denting US manufacturers global competitiveness. **In essence, to BEACON it seems market forces have been doing the FED's job and should pave the way for FED rate hikes.** Likely the FED wants to avoid surprising the market as it did in 2013 when then-FED Chair Ben Bernanke spooked the bond market with a speech about *someday* tapering Quantitative Easing (see **BEACON'S** *VIEW* 2013 Q2). The FED will move off ZIRP, perhaps this year as expected, seeking the so-called "path to normalization." With help from stocks and bonds, and modest inflation pressure (commodities, wages), FED rate increases *slow and easy* still seems more likely than *fast and steep*. As always, we'll remain vigilant. ■



Our STOCK and BOND Fund Partners 2015 Q3 & YTD: Balanced, Global Portfolios with Mutual Funds

Q3—Stocks Swooned, while Bonds Treaded-Water

STOCKS fell 20% in the Fall of 2011. Recalling the 2011 highlights: (see *VIEW* 2011 Q3): Japanese tsunami, PIIGS*/European sovereign debt crisis (*peripheral Euro economies), violent overthrow of Egypt's Mubarak government, NATO incursion in the Libyan civil war, mass killings in Assad's Syria, US debt ceiling squabble leading to "sequestration", and Standard & Poor's downgrade of the US long Treasury credit rating. Sounds like 2015 to anyone? It does to **BEACON**. After all, today we have similar economic and geopolitical highlights as 2011. As Mark Twain is reputed to have said, *"History doesn't repeat itself but it often rhymes."* Other than economic and geopolitical similarities, 2015 is like 2011 in that we've had a **stock** price correction as major indexes have declined (see chart below). **Stock** prices proved attractive in 2011 and the S&P 500 Index gained another 75% the next four years. The US economy resembles a *"Plow Horse"* (Economist Brian Wesbury), neither collapsing nor breaking out on the upside. While **stock** prices are not as cheap in 2015 as in 2011 (ex commodity-based equities), our **stock** fund managers report they're continuing to find and invest selectively in high quality companies in the US and elsewhere at reasonable prices, boding well for long-term prospects. As always, **BEACON** encourages all our clients to read the quarterly shareholder reports by our managers to gain added information about their research insights and to remind that successful investing is a long-game—measured not by the months on a calendar—but by achievement of your financial life goals.

BONDS have played their all-important function thus far in 2015 by providing income and net positive returns amidst the **stock** swoon—the "anchor to windward" in our balanced, global portfolios. Yet, it hasn't been an easy task and **bond** total returns are less than recent prior years. **BEACON** has written extensively about the investment challenges posed by historic low sovereign interest rates in the US and other developed economies (see *Investment ALERT*—The Case For International Bonds February 2012 and *Investment MEMO*—Positioning Your Portfolio in Rising Rates July 2013). As with **stocks**, we want global diversification in **bonds**, with issues outside the US denominated in US$'s primarily. Many of our client's taxable accounts hold tax-exempt municipal bonds. In the US there are about 90,000 state and local governments. Our managers AllianceBerstein and Fidelity caution we'll see increased market volatility, ratings downgrades and, possibly, defaults as the high cost of retiree pensions is putting stress on (some) city and state budgets. This will be the "headline" news for a few municipalities under severe stress like the State of Illinois, the City of Chicago, Chicago Public Schools, and the stats of New Jersey and Pennsylvania. And, "headline news" sometimes moves markets for retail investors. But, as with any asset class there are ample opportunities among issuers that are demonstrating a willingness to make the hard choices and manage the pension challenge effectively. Diligent research is essential to assess and invest in those municipalities up to the task, and avoid those that are not.