January 2016

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.

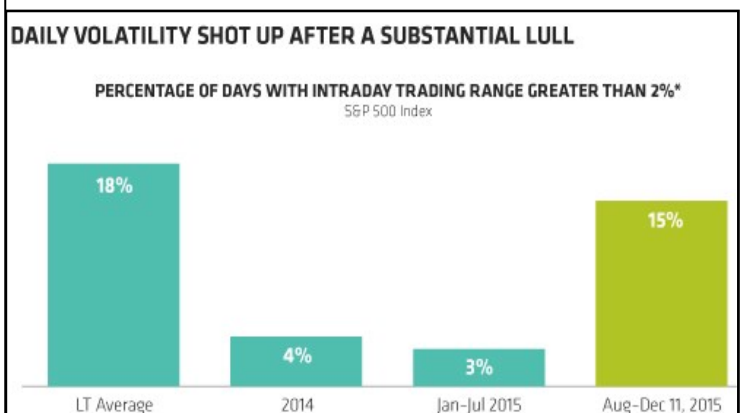
Please remember to contact Beacon Financial Advisors, Ltd. if there are any changes in your financial situation or investment objectives, or if you wish to impose, add, or modify any reasonable restrictions to our investment management services. A free copy of our FIRM BROCHURE (Form ADV, Part 2) is 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 Portfolio Review. Clients are urged to compare the custodians (Schwab Institutional et al) account statements with Beacons reports.

A PROFITABLE PARADOX: Trouble Brings Opportunity!

In **Beacon's** *Investment MEMO* of August 25, 2015 we recalled the Case of Dr. Jekyll and Mr. Hyde as the 1886 script by Robert Louis Stevenson about a London lawyer who investigates strange happenings between his old friend, Dr. Henry Jekyll, and the evil Edward Hyde. In fact, there are two personalities within Dr. Jekyll, one apparently good and the other evil. If Robert Louis Stevenson were alive today, he might be tempted to attribute to the stock market (aka Mr. Market) a "split personality"—one good and the other evil. Let's consider the chart below revealing after a Dr. Jekyll-like calm year-and-a-half to mid-2015, evil Mr. Hyde returned with a vengeance last Summer. And who was assigned blame for Mr. Hyde's reemergence?—China, for it's unexpected currency devaluation and growth recession.

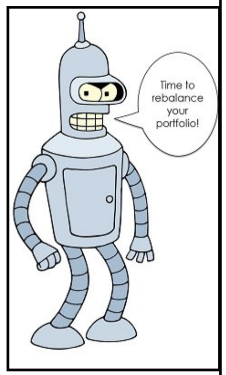
As of this writing mid-January 2016, evil Mr. Hyde is still stalking stock markets as opening-day trading in China was halted after losses surpassed 7% the first hour! Spooked US investors followed with the worst opening day since 1927 (S&P 500 Index down 1.5%), and the poorest opening week on record (S&P 500 Index down 5.9%). So, what "new" news greeted the New Year that prompted such sour investor -disposition? There was really nothing "new" as investors are facing the same 2016 dynamics as those in 2015—a growth-recession in China, divergent central bank policy among developed economies (i.e. US raised interest rates, Europe & Japan still simulative), falling global energy prices alongside a strong US dollar, and geopolitical tensions threatening to spread from the Middle East. Oh, and we will elect a new US president this year. Investors are wondering if kind Dr. Jekyll will ever reappear! On p. 2, we'll consider that many investors are doing exactly the wrong thing amidst the trouble. **What is Beacon doing?**



Trouble brings opportunity! Yet, to exploit the opportunity one must have a well-designed plan, execute, and keep emotions at bay. **Beacon** keeps current each client's financial plan, and investment portfolios are effectively diversified (see p. 3 for effectiveness of Asset Allocation). Our stock and bond holdings are actively managed (see p. 2), and our stocks span the globe. Our bond holdings emphasize US municipals in taxable accounts, and also include non-US bonds to exploit the varying interest rate cycles among global economies. We've benefited from good returns in REIT's (see p. 5), and we think selected commodity real assets are cheap. **We're staying the course!**

A PROFITABLE PARADOX: Trouble Brings Opportunity! (continued)...

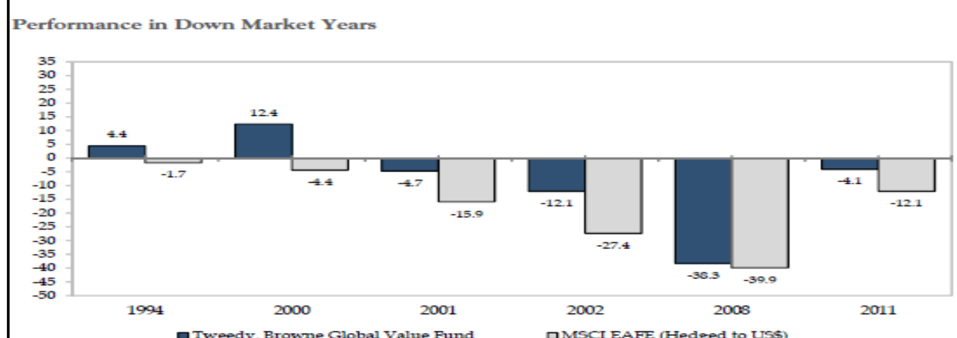
On p. 1, we wrote that many investors are doing exactly the wrong thing—many are selling stocks and loading up on cash...again! It's well-documented investors piled into bonds and cash from 2008-2014, just as the stock market was soaring. In 2015, many reversed course into stocks just as volatility returned (see p. 1). Sell low, buy high—a recipe for disappointment! Others are remaining invested but putting their stock and bond holdings on auto-pilot with all-passive robo-investing, myopically buying the academic argument active management is a fool's errand dependent on luck and not skill (Investors Snub Money Managers for Market Clones (WSJ 1/13/16). In the friendly skies, a recent FAA report says commercial airline pilots are losing basic manual flying skills due to automation—an "automation addiction". It seems investors and pilots have the same affliction.



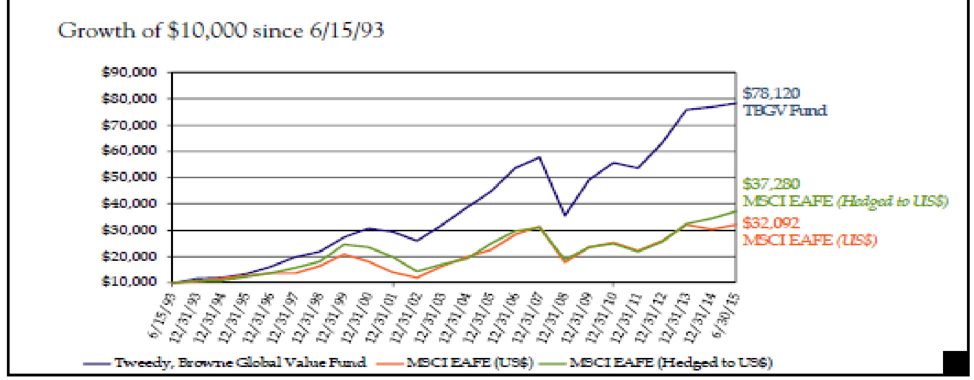
Long-term **Beacon** clients know we eschew an all-passive investment approach. In our client Service Brief ACTIVE and PASSIVE Investing: The Great Debate we wrote: *"In **Beacon's** view, there are large risks hard to navigate by hugging a benchmark, and meaningful opportunities that cannot be captured by being all-passive."* We have favored active-managers with a time-tested, research-driven investment process. As discussed on p. 4, **Beacon** recently selected Diamond Hill Capital Management (Columbus, OH) and Causeway Capital Management (Los Angeles, CA) as our newest investment partners (see *Investment ALERT 1/8/16)*—both are active managers with a clear investment and research process. We can't altogether avoid evil Mr. Hyde—investing is a long-term journey with many starts, stops, changes of scenery and occasional bumps. Knowing that, and controlling your emotions, allows your plan to succeed. Consider our long-term foreign stock manager Tweedy Browne Global Value (TBGVX).

Tweedy, Browne was founded in 1920 just before the Great Depression. As of September 30, 2015, the current Managing Directors and retired principals and their families, as well as employees of Tweedy, Browne had more than $852.9 million in portfolios combined with or similar to **Beacon's** clients—eating their own cooking! Beacon's clients are invested in TBGVX—with an inception of June 1993—and an historical annual total return of 9.78% compared to 5.42% for the benchmark MSCI-EAFE Index. A "key" to such a substantial total return advantage?—a time-tested investment discipline of preserving capital during periods evil Mr. Hyde is lurking. Win by not losing!

The Global Value Fund, since its inception over 22 years ago, has outperformed in every calendar year in which the benchmark index had a negative return.



What has capturing 83% of the upside and 61% of the downside done for investors over the past 22 years?



Asset Allocation (aka diversification) divides your funds into different asset types that typically provides exposure to the period *best* and *worst* returners, generating a blended return designed to achieve your financial goals. The matrix chart below is instructive. Over a decade and a half from 2000-2015—a notable period including the two worst global stock bear markets aside from the Great Depression (the 2000-2002 "tech crash", and the 2007-2009 "Great Recession")—a 60/40 asset allocation returned 5.2% annualized. While this may seem modest, it was more than the returns of the worlds' developed stock markets, and almost 3X greater than cash (i.e. money in the bank). In 2015 asset allocation returned –2.0% as the *best* returner was **REIT's** at 2.8% versus the *worst* **Commodities** at –24.7%. Aside from the wide asset class return divergences, there was wide-dispersion between stock returns as the **green-box S&P 500** returned 1.4% while the lavender-box MSCI-EME of emerging market stocks returned –14.6%. Restated, effective diversification (aka Asset Allocation) means always owning some of the *best* performers while limiting exposure to the *worst*. The white Asset Allocation boxes clearly produced that *smoothing* result across the full length of the turbulent 2000-2015 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)

																2000 - 2015	
2000	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**Ann.**	**Vol.**
Comdty. 31.8%	REITs 13.9%	Comdty. 25.9%	EM Equity 56.3%	REITs 31.6%	EM Equity 34.5%	REITs 35.1%	EM Equity 39.8%	Fixed Income 5.2%	EM Equity 79.0%	REITs 27.9%	REITs 8.3%	REITs 19.7%	Small Cap 38.8%	REITs 28.0%	REITs 2.8%	REITs 12.9%	REITs 22.0%
REITs 26.4%	Fixed Income 8.4%	Fixed Income 10.3%	Small Cap 47.3%	EM Equity 26.0%	Comdty. 21.4%	EM Equity 32.6%	Comdty. 16.2%	Cash 1.8%	High Yield 59.4%	Small Cap 26.9%	Fixed Income 7.8%	High Yield 19.6%	Large Cap 32.4%	Large Cap 13.7%	Large Cap 1.4%	High Yield 8.5%	Small Cap 21.2%
Fixed Income 11.6%	Cash 4.1%	High Yield 4.1%	DM Equity 39.2%	DM Equity 20.7%	DM Equity 14.0%	DM Equity 26.9%	DM Equity 11.6%	Asset Alloc. -25.4%	DM Equity 32.5%	EM Equity 19.2%	High Yield 3.1%	EM Equity 18.6%	DM Equity 23.3%	Fixed Income 6.0%	Fixed Income 0.5%	Small Cap 7.1%	EM Equity 20.6%
Cash 6.1%	Small Cap 2.5%	REITs 3.8%	REITs 37.1%	Small Cap 18.3%	REITs 12.2%	Small Cap 18.4%	Asset Alloc. 7.1%	High Yield -26.9%	REITs 28.0%	Comdty. 16.8%	Large Cap 2.1%	DM Equity 17.9%	Asset Alloc. 14.9%	Asset Alloc. 5.2%	Cash 0.0%	EM Equity 6.3%	Comdty. 18.7%
High Yield 1.0%	High Yield 2.3%	Cash 1.7%	High Yield 32.4%	High Yield 13.2%	Asset Alloc. 8.1%	Large Cap 15.8%	Fixed Income 7.0%	Small Cap -33.8%	Small Cap 27.2%	Large Cap 15.1%	Cash 0.1%	Small Cap 16.3%	High Yield 7.3%	Small Cap 4.9%	DM Equity -0.4%	Fixed Income 5.7%	DM Equity 16.9%
Asset Alloc. 0.0%	EM Equity -2.4%	Asset Alloc. -5.9%	Large Cap 28.7%	Asset Alloc. 12.8%	Large Cap 4.9%	Asset Alloc. 15.3%	Large Cap 5.5%	Comdty. -35.6%	Large Cap 26.5%	High Yield 14.8%	Asset Alloc. -0.7%	Large Cap 16.0%	REITs 2.9%	Cash 0.0%	Asset Alloc. -2.0%	Asset Alloc. 5.2%	Large Cap 16.7%
Small Cap -3.0%	Asset Alloc. -3.9%	EM Equity -6.0%	Asset Alloc. 26.3%	Large Cap 10.9%	Small Cap 4.6%	High Yield 13.7%	Cash 4.8%	Large Cap -37.0%	Asset Alloc. 25.0%	Asset Alloc. 13.3%	Small Cap -4.2%	Asset Alloc. 12.2%	Cash 0.0%	High Yield 0.0%	High Yield -2.7%	Large Cap 4.3%	Asset Alloc. 13.4%
Large Cap -9.1%	Large Cap -11.9%	DM Equity -15.7%	Comdty. 23.9%	Comdty. 9.1%	High Yield 3.6%	Cash 4.8%	High Yield 3.2%	REITs -37.7%	Comdty. 18.9%	DM Equity 8.2%	DM Equity -11.7%	Fixed Income 4.2%	Fixed Income -2.0%	EM Equity -1.8%	Small Cap -4.4%	DM Equity 2.9%	High Yield 11.5%
DM Equity -14.0%	Comdty. -19.5%	Small Cap -20.5%	Fixed Income 4.1%	Fixed Income 4.3%	Cash 3.0%	Fixed Income 4.3%	Small Cap -1.6%	DM Equity -43.1%	Fixed Income 5.9%	Fixed Income 6.5%	Comdty. -13.3%	Cash 0.1%	EM Equity -2.3%	DM Equity -4.5%	EM Equity -14.6%	Cash 1.9%	Fixed Income 3.4%
EM Equity -30.6%	DM Equity -21.2%	Large Cap -22.1%	Cash 1.0%	Cash 1.2%	Fixed Income 2.4%	Comdty. 2.1%	REITs -15.7%	EM Equity -53.2%	Cash 0.1%	Cash 0.1%	EM Equity -18.2%	Comdty. -1.1%	Comdty. -9.5%	Comdty. -17.0%	Comdty. -24.7%	Comdty. 0.8%	Cash 1.0%

CHART FROM J.P. MORGAN ASSET MANAGEMENT 2016 Q1 GUIDE TO THE MARKETS - PAGE 59

"Asset Allocation" portfolio assumes the following index weights: 25% S&P 500, 10% Russell 2000, 15% MSCI EAFE, 5% MSCI EMI, 25% Barclays Capital Aggregate, 5% Barclays 1-3m Treasury, 5% Barclays Global High Yield, 5% Bloomberg Commodity Index, 5% NAREIT Equity REIT Index.

(NOTE: An investor cannot invest directly in an index, and its performance does not reflect investing costs).

INVESTMENT *ALERT*: OLD PARTNERS RETIRED and/or RECLASSIFIED... ...NEW PARTNERS INTRODUCED

CLOSED TO NEW CLIENTS; SUBSSTITUTE MANAGER LISTED BELOW IN ITALICS

ASSET ALLOCATION BY SECURITY

US STOCKS - SMALL/MID

Diamond Hill Small Mid Cap Inst'l (DHMIX / DHMAX) - SmallCap

Gabelli Asset Inst'l (GABAX / GABIX) - MidCap

US STOCKS - LARGE

Dodge & Cox Stock (DODGX)

Sequoia (SEQUX)

Manning & Napier Equity (EXEYX)

Jensen Quality Growth Portfolio Inst'l (JENIX / JENRX)

INTERNATIONAL STOCKS

Dodge & Cox International Stock (DODFX) ($Unhedged)

Causeway Capital International Value Inst'l (CIVIX / CIVVX) ($Unhedged)

Tweedy, Browne Global Value (TBGVX) ($Hedged)

REAL ESTATE (REITS)

Cohen & Steers Institutional US Realty Shares Inst'l (CSRIX-REITs)

RESOURCES & REAL ASSETS

AB All Market Real Return Inst'l (AMTYX)

INTERNATIONAL BONDS

AB Global Bond Inst'l (ANAYX)

Fidelity Advisor Strategic Income Inst'l (FSRIX)

US BONDS

Taxable (High Tax Bracket) Accounts:

AB High Income Municipal Inst'l (ABTYX)

AB National Municipal Inst'l (ALTVX)

Fidelity Advisor Intermediate Municipal Inst'l (FZIIX)

Tax-Deferred & Taxable (Low-Mid Tax Bracket) Accounts:

Dodge & Cox Income (DODIX)

MetWest Total Return Inst'l (MWTIX / MWTRX)

Long-term clients of **Beacon** have observed our decision making process related to our sell actions. Sell reasons can include asset allocation shifts/overlap, changes to management style, sustained under performance relative to benchmark, management changes, or policy changes.

⇒ **Old Partner Retired**—Third Avenue Management ("TAM", TASCX, TAVFX) will be removed from our portfolios because key manager Marty Whitman's active role in the portfolios is diminished, protégé Curtis Jensen has left the firm, recent comparative underperformance, and **Beacon** is not confident with the overall firm direction. **Beacon** first bought Third Avenue in 1993 and returns, nominal and relative, have been very good until the past couple years. This is a good case in point that, despite a 20+ year holding in TAM, **Beacon** always strives for independent thinking regarding the fund partners we deploy in client portfolios.

Our buy actions often include selecting partners that are *independently owned* and *eats their own cooking* (i.e. demonstrably invests your money with the same care as their own because fund managers are significant investors alongside **Beacon's** clients). Both attributes apply to our newest partners, Diamond Hill Asset Management (Columbus, OH) and Causeway Capital Management (Los Angeles, CA).

⇒ **New Partners Introduced**—

- ⇒ **Beacon** selected Diamond Hill Asset Management to *replace* Third Avenue, specifically the Diamond Hill Small Mid Cap Inst'l (DHMIX) will be our new core US Small/Mid cap manager alongside Gabelli. DHMIX uses a team-approach to research led by lead-manager Chris Welch to invest in small and medium cap (i.e. size) companies. DHMIX normally owns 50-70 companies and has a risk-return performance advantage over all period segments versus it's benchmark Russell 2500 Index. You can learn more about Diamond Hill at http://www.diamond-hill.com/.
- ⇒ **Beacon** selected Causeway Capital Management and its Causeway International Value Inst'l (CIVIX) to *supplement* our current International Stock managers Dodge & Cox and Tweedy, Browne because Dodge & Cox has enacted a "soft close" for *new* clients only. Causeway's CIVIX has returned about 1.6%/year more than it's benchmark MCSI-EAFE since inception in 2001, and employs a research process quite similar to Dodge & Cox—team oriented, bottom-up stock selection using fundamental research in developed international markets (up to 10% can be invested in emerging markets, while Dodge & Cox permits up to 20%). You can learn more about Causeway at http://www.causewaycap.com/.

Our STOCK and BOND Fund Partners for 2015

STOCKS generated divergent returns in global markets and, as in 2014, some like emerging markets were impacted by a strengthening US$. As the chart on p. 4 reveals, the S&P 500 Index had a total return (including dividends) of 1.4%, yet in the ten (10) major industry categories were large gaps as Consumer Discretionary gained 10% while energy lost –21% (see chart below with industry weightings on top and industry returns on bottom). The non-US developed markets declined –0.4% (MSCI-EAFE). Many of the emerging markets depend on energy and commodity production. With slumping real asset prices (down over –24%) stocks of emerging markets fell over –14%.

For the 5th time in 6 years REIT's lead all global asset classes, and Cohen & Steers Inst'l Realty (CSRIX) led all our stock partners in 2015 returning 5.2%. Historically REIT's have been included in the Financials industry classification alongside banks, insurance companies and brokerages. During **Beacon's** October meeting with Cohen & Steers we learned REIT's will be assigned a dedicated industry classification in 2016 (REIT's Are a Permanent Allocation, October 2016, Cohen & Steers). **Beacon** has included REIT's a strategic asset class in client-portfolios for several years.

2015 was the 2nd year in which the S&P 500 Index had a higher total return than most of **Beacon's** actively-managed US stock fund partners. We think the surge of $ to passive strategies is creating unsustainable factors (e.g. overvaluation, excessive concentrations, etc.), setting the stage for our active stock partners to earn their fees by resisting biases of the "follow the money crowd". *History may not repeat, but it sure does rhyme*—Mark Twain.

	Financials	Technology	Health Care	Industrials	Energy	Cons. Discr.	Cons. Staples	Telecom	Utilities	Materials
S&P weight	16.5%	20.7%	15.2%	10.0%	6.5%	12.9%	10.1%	2.4%	3.0%	2.8%
2015	-1.5	5.9	6.9	-2.5	-21.1	10.1	6.6	3.4	-4.8	-8.4

BONDS in 2015 global bond returns were similarly divergent as stocks, overall producing modest losses. The Barclays (US) Aggregate returning 0.5% while emerging market debt lost nearly –15%.

For the 2nd consecutive year the best performing bonds were US municipals. **Beacon's** muni bond partner AB (Alliance Bernstein) High Income Municipal (ABTYX) followed it's 17% 2014 return with a solid 5.6% advance in 2015, easily outgaining the benchmark Barclays Aggregate Muni's 3.3%. While many investors avoided (or sold) municipals when headline news included stories about bankruptcy in Detroit or financial stress in Puerto Rico, **Beacon's** municipal partners AB and Fidelity knew the broad, highly-fractured municipal bond market presented some unique opportunities—and right they were.

Today's historic low interest rates in the US and other developed markets present *risks* and *opportunities* in bonds (see Beacon's client Service Brief Bonds: Anchor in Your Portfolio...*But Watch Those Interest Rates*). As with stocks, **Beacon** contends active management is essential to *minimizing the risks* and *seizing opportunities*. As always in Beacon's clients' balanced, global portfolios, the primary portfolio-goals of bonds are income generation and serving as a shock-absorber for stocks—the "anchor to windward".

2015	
Muni	3.8%
MBS	1.5%
EMD USD	1.2%
Treas.	0.8%
Barclays Agg	0.5%
Asset Alloc.	-0.3%
Corp.	-0.7%
TIPS	-1.4%
High Yield	-4.5%
EMD LCL	-14.9%

Overall 2015 was unremarkable for our balanced, global portfolios. Clients' total returns were mostly slightly negative for the full year (see your PORTFOLIO REVIEW sent separately). **Beacon** maintains our view the economic outlook and relative-valuations favor **stocks** versus **bonds**, and full-to-slightly overweight allocations to stocks is our preferred asset allocation profile.