



April 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 you our clients. Your unique results are revealed in the performance reports inside your quarterly Portfolio Review. We urge you to compare your custodians (Charles Schwab et al) account statements with Beacons reports.

Diversification Means Always Having To Say You’re Sorry

The advisor was giddy. It was January, and the firm’s newest client was in for the New Year’s initial meeting. Minutes into the meeting the advisor confidently presented the client’s investment returns for the prior year—*“We invested your portfolio in three assets. The 1st returned 10%, the 2nd 15%, and our best performer returned 20%!”* After an expected pause, the client tersely replied, *“Well, why didn’t you put all my money in the best performer?”* Stunned, the advisor slumped in the chair and mumbled silently, as if staring at the floor, *“It’s true—diversification means always having to say you’re sorry.”*

—BEACON Parable

Wikipedia defines “diversification” in finance as the process of allocating capital in a way that reduces the exposure to any one particular asset or risk (boldface by BEACON). Easy enough, right? Any aspiring high school junior understands it’s prudent to apply to more than one university (diversify) if declined by the top choice (risk), given the competitive environs for entrance to higher education. In this simplified illustration the student’s risk is clearly identified and is one-dimensional—not getting into any of the preferred schools.

In the finance world, risks are often opaque and always multi-dimensional. Consider, for instance, the topic of case-analysis for investment market macro-scenarios. Will we have inflation or deflation? In 2015-2016, we’ve experienced an oil (price) crash. Will low oil prices persist, or will prices rebound more quickly and robustly than markets expect? In the US, our central bank has promoted ZIRP (Zero Interest Rate Policy), yet interest rates are poised to rise. Yet, in Japan and Switzerland they’re using NIRP (Negative Interest Rate Policy) and investors are paying banks to store cash. In Europe large fiscal problems threaten the European Union as member states like Greece exhibit dysfunction and in June Great Britain will vote on a referendum about remaining in the EU. What about China’s widely-feared economic slowdown as they shift from an export-dominated economy to a consumer-driven economy like the U.S.? Need more case-scenarios to consider—how about the U.S. debt crisis, political candidates’ threats of currency/trade wars, actual wars in Afghanistan and Syria (hot) and the U.S./Russia (cold), demographic shifts in population age, climate change (real or not), risks of pandemics (Ebola, Zika), etc.

(continued page 2)



INFLATION



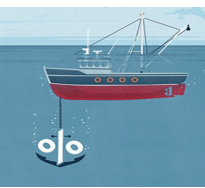
DEFLATION



OIL CRASH



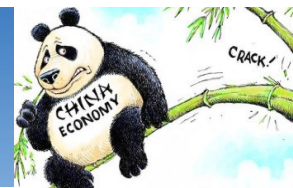
RISING I-RATES



NEGATIVE I-RATES



EUROPE DYSFUNCTIONAL



CHINA SLOWDOWN



Diversification Means Always Having To Say You're Sorry *(continued)*

No less an authority than the Bible stipulates knowledge that risks abound does not mean one can (reliably) predict which risky-scenario will prevail at any time.

“Divide your investments among many places, for you do NOT know what risks might lie ahead.” Ecclesiastes 11:2 (New Living Translation)

So, why do we say diversification means always having to say you're sorry? In **BEACON'S** 2015 Q4 issue of VIEW ON page 3 we wrote:

“Asset Allocation (aka diversification) divides 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.”

Diversification means always having to say you're sorry because:

1. If a risky-scenario occurs, not all your investments are adversely impacted but,
2. If a risky-scenario does not occur, not all your investments will benefit.

In practice terms this means **BEACON** typically constructs your balanced, global portfolios so that not all the investments are aligned towards the same risk-scenarios. We want your portfolio to be thoughtfully well-diversified, meaning we must own investments that will perform well in certain risk-scenarios and less well (perhaps even poorly) in others. Consider today in 2016—an economic transition period whereby economists are conflicted whether our U.S. economy will strengthen or weaken. In the strong economy scenario, stocks and high-yield bonds can both be expected to perform well—they're highly positively correlated. However, if economic weakness actually results stocks and high-yield bonds likely would underperform at the same time. In contrast, government (sovereign) and government agency bonds often perform well in a weak economy (e.g. flight to safety), serving to buffer stock weakness. By including government bonds (including municipals) and corporate bonds (high yield and investment grade) in your portfolio, your investments are aligned towards varying risk-scenarios.

The second part of our sentence about asset allocation [above] reads *“...generating a blended return designed to achieve your financial goals.”* **BEACON'S** mission statement includes:

*Beacon purposes to work alongside our clients in **articulating, establishing and achieving** their financial life goals...We believe with **responsible decisions, reasonable expectations and vigilant, attentive counsel** each client can achieve their financial life goals. It is to this end and purpose, on behalf of our clients, that Beacon endeavors to strive.*

BEACON'S preferred definition of risk is the chance of not meeting your lifetime financial goals aka exhausting your money (Beacon's Brochure Form ADV Part II, page 19). **BEACON** will always remain diversified with a long-term investment focus. This approach to constructing and managing your balanced, global portfolios means there will always be instances investments lead or lag. Sometimes there are contributors and detractors together. Other times all investments are contributors (Yeah!), or all are detractors (Boo!). But, there will always be a pecking order of best and worst performers. In **BEACON'S** experience, sustained, long-term investing success affirms and abides that **diversification is investing's only free-lunch** (provided it's served up with a hearty dose of humility).



“Everyone on Wall Street is so smart that their brilliance offsets each other. Whatever they know is already reflected in the level of stock prices, pretty much. Consequently, what happens in the future represents what they don't know.”

Benjamin Graham

“As our circle of knowledge expands, so does the circumference of darkness surrounding it.”

Albert Einstein

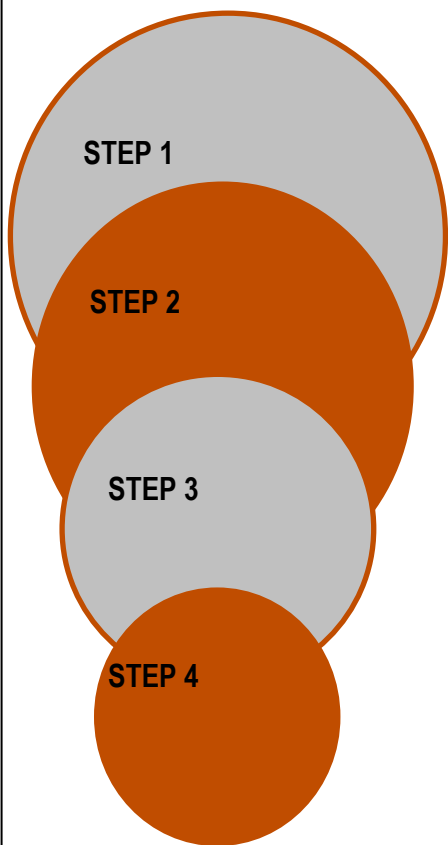


Our STOCK and BOND Fund Partners 2016 Q1: Balanced, Global Portfolios with Mutual Funds

STOCKS demonstrated our featured theme about *diversification having to say sorry* with contributors and detractors (pages 1-2). The top contributor was Jensen (JENIX), our US large cap growth manager with a Q1 return north of 6%. Jensen is a “quality growth” manager with fewer than 30 companies in the portfolio including Pepsico, Johnson & Johnson, Nike, and Apple* (*a recent addition). The top detractor was Sequoia (SEQUX, -11%) due mostly to a single large position in Valeant Pharmaceuticals. Across the twin-ponds, returns from non-US markets continued to be laggards, but relative valuations are quite attractive so we are constructive on future returns.

BONDS advanced as the U.S. interest rate yield curve declined and boosted bond prices. BEACON’S core bond funds gained across the board as our international bond partners produced robust total returns north of 3%. Considering how low interest rates are in the U.S. and other major developed countries (see p. 1 negative interest rates or NIRP), 3% is quite remarkable. Fidelity Strategic Income (FSRIX) entered your portfolio in 2012 (*Investment ALERT, Introducing International Bonds, 2/8/12*). With a flexible investment mandate, lead manager Joanna Bewick has substantial support from Fidelity’s deep fundamental, quantitative and macroeconomic research. Here’s a peak.

THE JENSEN QUALITY GROWTH INVESTMENT PROCESS



- Step 1**
Annually pare down over 5,000 publicly-traded U.S. companies, focusing on fewer than 250 for further screening.
- Market capitalization above \$1 Billion
 - ROE greater than 15% for each of the last ten years
- Step 2**
Screen for quality companies
- Growth potential
 - Margin strength and consistency
 - Business returns
 - Financial strength
 - Other quality characteristics
- Step 3**
Pare down to 40-50 potentials
- Assess sustainability of competitive advantages
 - Identify growth drivers
 - Determine free cash flow potential
- Step 4**
Select 25-30 most attractive stocks
- Identify undervalued securities
 - Individual positions of 1% to 7.5%
 - Sector limit of 30%
 - Position weights reflecting conviction level

THE FIDELITY STRATEGIC INCOME INVESTMENT UNIVERSE

Asset Class	Allocation Range
High-yield bonds and Floating rate debt	35%–55%
U.S. government and investment-grade securities	15%–35%
Emerging-markets debt	5%–25%
Foreign developed-markets debt	5%–25%

