



October 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 Investment Review. Clients are urged to compare the custodians (Schwab Institutional et al) account statements with Beacons reports.

RED STATE v. BLUE STATE: The Presidential Cycle



The winner of 270 electoral college votes in the 2016 U.S. Presidential election, and the next President of the United States of America, is **REDACTED FOR PURPOSES OF NATIONAL SECURITY**

Factoid—Your estimated benefits are based on current law. Congress has made changes to the law in the past and can do so at any time. The law governing benefit amounts may change because, by 2034, the payroll taxes collected will be enough to pay only about 79% of scheduled benefits.
 - Page 2 of Your Social Security Statement 2016



With apologies to Libertarian and Green Party candidates, conventional wisdom is the Democrat Hillary Clinton will be sworn in as our 45th President next January. “Conventional wisdom” is the body of ideas or explanations generally accepted as true by the public and/or by experts in a field. But, “conventional wisdom” can prove false as well a true. A example of “conventional wisdom” going astray was **BREXIT**, the June 23 referendum by British citizens to leave the 28-nation European Union, would send investment markets into panic—it did, for a day—then stocks rebounded for a solid Q3 (see **STOCKS** recap p. 4; we wrote about **BREXIT** in VIEW 2016 Q2 issue).

In this issue of VIEW, **BEACON** will make no prediction about who will be our next President (you really didn’t expect us to, did you?). There are plenty of pundits and pollsters, along with economists, already in the prediction business. In our client service, we strive to avoid “politics” even as we pursue understanding of “policies” that can potentially impact your wealth for good or ill. Tax policy. Trade policy. Stuff like that. In that context, we think it somewhat useful to assess the probabilities of each candidate becoming President in order to evaluate their “policy” proposals and consider possible investment outcomes from those in the past. Recently **BEACON** attended a Fidelity Institutional Asset Management forum with panelists from Fidelity and Strategas, a macro-theme research firm—

Presidential Cycle Update Presentation. Charts on p. 2 catalog investment market movements and prognosis (e.g. S&P 500 Index) related to Presidential and Congressional election cycles. A word of caution: we don’t plan dramatic changes to your portfolio based on who will be the 45th President. Campaign “political” promises are often afar from “policy” implementation, and government “policy” is but one component of investment market outcomes, albeit an impactful one, so we’re on watch for November.



RED STATE v. BLUE STATE: The Presidential Cycle (continued from p. 1)

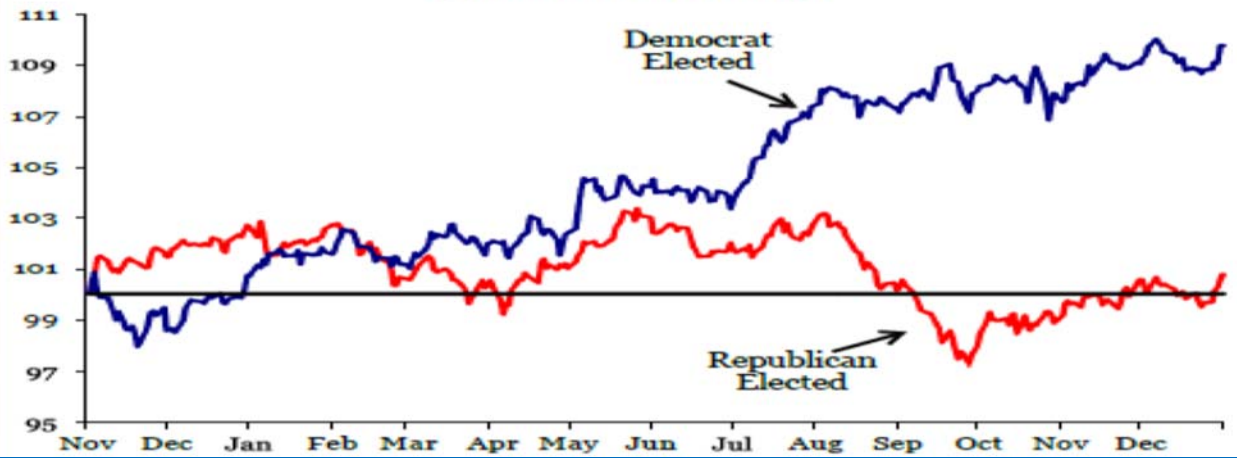
1 History tells us that if the S&P 500 is up, the incumbent party is likely to win the White

2 Election year patterns have historically started to diverge in June...
3 But, it's not all on the President...markets also consider who has the Congressional majority.

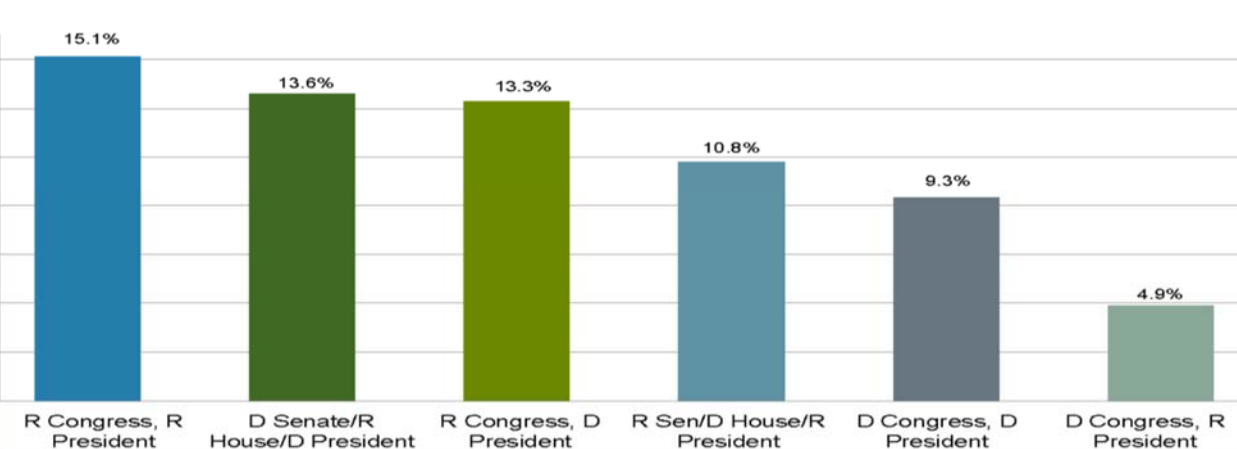
1 S&P 500 Performance 3 Mo. Prior To Presidential Election

2 S&P 500 Average Performance: November Of Election Year Through Following Year 1936 - Current (2013)

S&P 500 Price Incumbent			
Year	Return	Party	
'28	14.91%	Won	✓
'32	-2.56%	Lost	✓
'36	7.92%	Won	✓
'40	8.56%	Won	✓
'44	2.29%	Won	✓
'48	5.36%	Won	✓
'52	-3.26%	Lost	✓
'56	-2.58%	Won	✗
'60	-0.74%	Lost	✓
'64	2.63%	Won	✓
'68	6.45%	Lost	✗
'72	6.91%	Won	✓
'76	-0.09%	Lost	✓
'80	6.73%	Lost	✗
'84	4.80%	Won	✓
'88	1.91%	Won	✓
'92	-1.22%	Lost	✓
'96	8.17%	Won	✓
'00	-3.21%	Lost	✓
'04	2.16%	Won	✓
'08	-19.48%	Lost	✓
'12	2.45%	Won	✓



3 Partisan Control, Avg. Annual S&P Performance (1933-2015, Excl. 2001-02)





Our **STOCK** and **BOND** Fund Partners 2016 Q 1-3 & YTD: Balanced, Global Portfolios with Mutual Funds

Q3—*Global STOCKS robust, and US, International BONDS gain from accommodative money policy*



STOCKS advanced across the globe in Q3 as the S&P 500 Index rose nearly 4% while international stocks advanced nearly 7% (MCSI-EAFE US\$ Index). Among **BEACON'S** US stock funds our “value” manager Dodge & Cox Stock

(DODGX) gained nearly 9% in Q3 and in the international class sibling Dodge & Cox International Stock (DODFX) eclipsed 10% for three-months work. **BEACON** featured Dodge & Cox in VIEW 2016 Q2 (p. 3-4), citing their conviction that valuation disparities among publicly-traded stocks (i.e. “growth” v. “value”) were presenting long-term opportunities for patient investors. If Q3 is any example, we’re hopeful the long-term is nearer at hand. Excepting Sequoia (SEQUX), all of **BEACON'S** “active” US stock partners have outperformed the “passive” S&P 500 Index on a YTD basis. We think the chatter of the demise of active management is wrong. Sequoia’s positive Q3 helped, but the millstone of realized losses on a large overweight to Valeant Pharmaceuticals has been a drag on YTD returns. Sequoia has made some constructive changes in its investment policy that should help limit future exposure to “concentrated position” losses. In the small/mid cap class, our newest partner Diamond Hill Small Mid Cap Value Inst’l (DHMIX) returned nearly 11% YTD as did Jensen Quality Growth Inst’l (JENIX) and Manning & Napier Equity (EXEYX).

Aside from Dodge & Cox International Stock (DODFX; see above) **BEACON'S** other international stock partners Causeway International Value Inst’l (CIVIX) and Tweedy, Browne Global Value (TBGVX) returned 6.3% and 3.7% Q3 gains. **BEACON'S** alternative class partners AB All Market Real Return (AMTYX) gained nearly 1% in Q3 to extend YTD gains to over 13%, while REIT focused Cohen & Steers Inst’l Realty (CSRIX) was flat in Q3.



BONDS, as noted in our VIEW 2016 Q2 issue, operate in a very strange interest rate environment since the 2008 global financial crisis that brought us the “Great Recession.” For several years the

US Federal Reserve has followed ZIRP—Zero Interest Rate Policy, and today investors get a paltry 1.4% to loan Uncle Sam money for 10 years. Not to be upstaged by us Yank’s, central bankers in Germany, Japan, and Switzerland are experimenting with NIRP—Negative Interest Rate Policy—wherein investors pay the government to hold their money! Here’s how NIRP works: lend the Bundesbank \$100,000 and in 10 years they’ll return \$99,820 for an annual **-0.18%** return.

BEACON'S bond managers across the globe extended their Q1-2 gains with more of the same in Q3, producing 9 month returns that would qualify as good full-year returns **for stocks**, especially in the today’s historic rate environment. International bonds and US high yield bonds have done especially well led by Fidelity Advisor Strategic Income Inst’l (FSRIX) at 10.2% YTD. Our taxable US bond managers Dodge & Cox Income (DODIX) and MetWest Inst’l Total Return (MWTIX) returned nearly 7% and 5.3% respectively YTD. Our tax-exempt municipal managers had generally flat to slightly positive total returns for Q3 however, with quite good YTD tax-free returns. **BEACON** continues to forecast modest low-mid single-digit total returns for bonds as sovereign interest rates remain at historic lows and will someday rise from the mat (see our August [SERVICE BRIEFS Rates & Weights of Investment Returns, v1 & v2](#)).

