August 2018

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

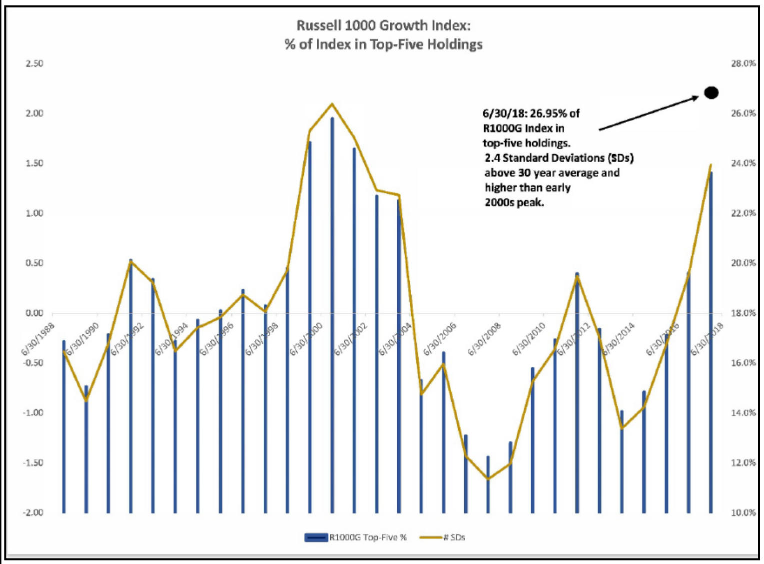
MARCEL HEBERT has a B.S. in Finance, an M.B.A., and is a Certified Financial Planner (CFP) licensee and a Chartered Financial Analyst (CFA) charterholder.

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.

Growth Spurt for Active (v. Passive) & Value Begins Recovery (v. Growth)

We delayed our Q2 issue of VIEW as we observed July asset returns—namely selected members of the F.A.A.N.G* gang got haircuts, value stocks outperformed, and bonds gained (*Facebook, Amazon, Apple, Netflix & Google [aka Alphabet]). Lets stipulate that **BEACON'S** clients own selected members of F.A.A.N.G, including Amazon (in Sequoia/SEQUX), Apple (in Jensen/JENIX), and Google (in Dodge & Cox/DODGX). We've also benefited by owning other tech giants like Microsoft (in Dodge & Cox/DODGX).

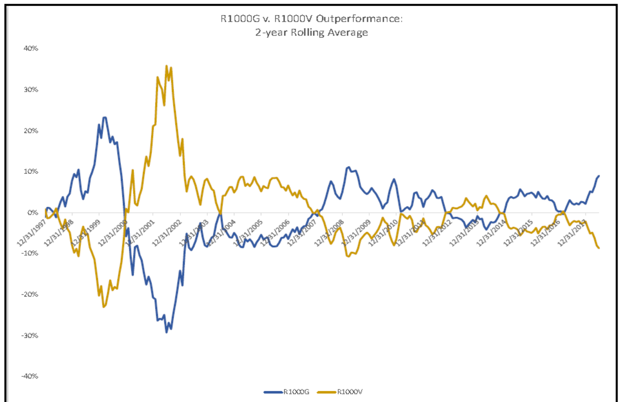
In recent years the F.A.A.N.G gang powered passive indexes like the S&P 500, making it tough for active managers to outperform (see **BEACON'S** Active & Passive Investing Choices: *Comparing & Contrasting*). Investors have poured funds into passive strategies in disregard to valuation concerns with a "this time it's different" attitude—big tech will rule forevermore. Just how exposed are major indexes to big tech? The chart below depicts the concentration of the F.A.A.N.G. gang—the 27% representation in the Russell 1000 Growth Index is unprecedented in the past 30 years, surpassing the previous December 2000 dot-com peak (and we know how badly that ended). Facebook's recent *one-day* 20% plunge reminded investors of the old Wall Street maxim: "Trees don't grow to the sky." Stock prices do not completely disconnect from underlying fundamentals. The F.A.A.N.G. gang may continue to outperform, but history reveals the top-five Index holdings have not proven to be a stable group over time. Ten years ago, the top-five Index holdings were Microsoft, IBM, Walmart, Cisco Systems, and Philip Morris. Twenty years ago, it was General Electric, Microsoft, Intel, Merck, and Pfizer. Most of the stocks in those groups underperformed in subsequent periods. Often for one of two reasons many high-flying growth stocks eventually slump—competition and/or regulation. Success invites competition from talented competitors eager to grab market share. Sometimes regulators get involved if a company or industry threatens industry competitiveness, national security, financial market soundness, etc. This time it's (usually not) different. Keep reading.



"This time it's different."

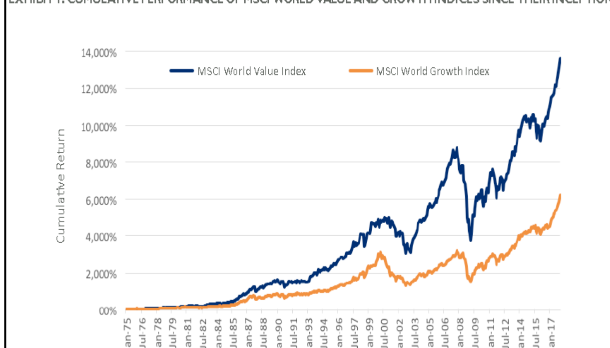
(Four of the most dangerous words in investing)

Growth Spurt for Active (v. Passive) & Value Begins Recovery (v. Growth)



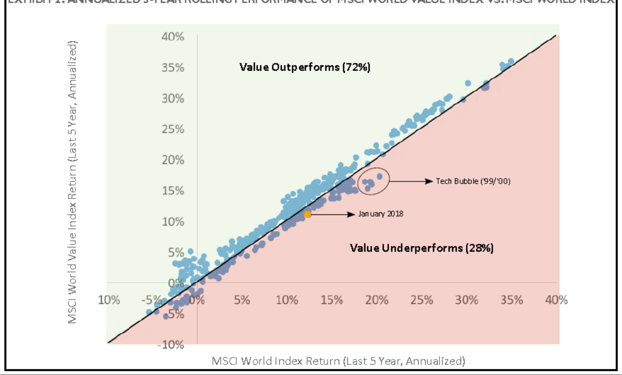
Value stocks have outperformed growth stocks over the long run.

EXHIBIT 1. CUMULATIVE PERFORMANCE OF MSCI WORLD VALUE AND GROWTH INDICES SINCE THEIR INCEPTION



MSCI World Value Index has outperformed MSCI World in 72% of rolling 5-year periods.

EXHIBIT 2. ANNUALIZED 5-YEAR ROLLING PERFORMANCE OF MSCI WORLD VALUE INDEX VS. MSCI WORLD INDEX



As a reminder, **BEACON'S** client-portfolios' features active managers with both growth and value stocks. Investors distinguish growth and value stocks as regarding price vs. fundamentals. Growth stocks are those companies whose earnings (actual or expected) are increasing faster than the overall market with prices commensurately higher. Value stocks are companies that trade at a lower price to fundamentals, some of which are considered undervalued. The F.A.A.N.G. gang belongs to the growth category and the chart top left reveals growth stocks (blue) have outperformed value stocks (gold) the past 1-1/2 years and much of the past 10 years since the end of the 2008 financial crisis. Many investors in recent times are asking why bother with value stocks. Consider the period before 2008 on the chart top left. The late 1990's dot-com era witnessed growth stocks surge ahead of value stocks, prompting then FED Chairman Alan Greenspan's "irrational exuberance" comment. Yet, when it was discovered the "emperor had no clothes", the dot-com crash introduced a multi-year period of value stocks recovery versus growth stocks.

If we extend the time frame, and expand our universe to global stocks, we see the compelling case to own value stocks. The chart middle left reveals the cumulative doubling out-performance of value stocks (blue) versus growth stocks (gold) from 1975 to January 2018 as measured by the MSCI World Indexes. Additionally, we can observe that value stocks outperform growth stocks more frequently. The chart bottom left reveals that as measured by five-year rolling periods value has outperformed growth 72% of the time, while value underperformed growth 28% of the time.

All of which brings us to July 2018. Dodge & Cox is one of **BEACON'S** core managers whose strategy includes: *"We typically invest in companies that, in Dodge & Cox's opinion, appear to be temporarily undervalued by the stock market but have a favorable outlook for long-term growth."* In other words, Dodge & Cox is an active manager with a focus on value stocks. In July both Dodge & Cox Stock (DODGX) and Dodge & Cox International Stock (DODFX) returned nearly 5% reversing declines in Q1 and Q2. While one-month does not a trend make, we are encouraged by recent results. July 2018 also marked a robust month for bond returns. Q1 resulted in modest losses for most all bond sectors, while most sectors in Q2 staged a recovery that extended to July. Rising short-term interest rates resulted from FED hikes, and a strengthening US dollar weighed on international bonds, especially emerging market issues. But, July was a turnaround month as all of **BEACON'S** fixed income partners posted positive returns.

As of August, **BEACON** has held meetings with all our mutual fund partners to review their holdings and discuss their investment convictions. Patience, persistence, and a long-term investment horizon are essential to our investment approach, and we encourage clients to take a similar view.