January 2020

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.

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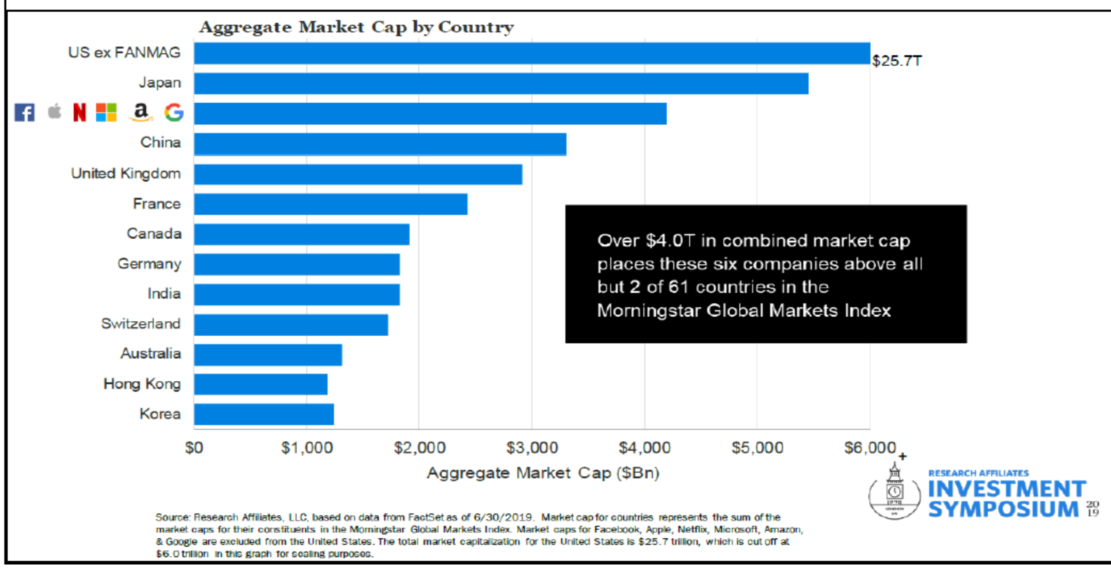
Please remember to contact Beacon Financial Advisors, Ltd. if there are any changes in your financial situation or investment objectives, or if you wish to impose, add, or modify any reasonable restrictions to our investment management services. A free copy of our FIRM BROCHURE (Form ADV, Part 2) is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

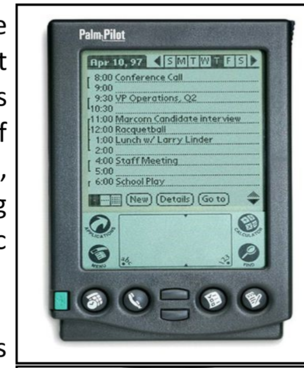
"Those Who Fail To Learn From History Are Doomed to Repeat It" WINSTON CHURCHILL 1948

"It's easy to stand with the crowd. It takes courage to stand alone." Mahatma Gandhi. Well, applying that observation to the stock market suggests the crowd is standing with FANMAG. What is FANMAG you ask? It's an acronym for the largest U.S. technology companies—Facebook, Apple, Netflix, Microsoft, Amazon & Google. Now these are really great companies, total disrupters that have changed how business and consumers use technology. They have enriched shareholders to the tune of over 700% cumulative return the past decade. **BEACON'S** clients have benefited as our US large cap funds Dodge & Cox Stock (DODGX), Jensen Quality Growth (JENIX), and Sequoia (SEQUX) own, or have owned, most of the FANMAG'S—yet, none of the FANMAG'S represent dramatic over-weightings in our funds the way they do in the market-capitalization indexes like the S&P 500 Index that over weights the most expensive stocks. **BEACON'S** 2019 Q3 VIEW, Is It Déjà vu All Over Again? A Trip Down Memory Lane, reminded you of the tech bubble of 1998-2000. We learned a new expression—"new paradigm"— meaning profits, and even sales, were not important in valuing companies. The subsequent crash in tech and growth stocks assured "new paradigm" a place in the trash bin. Some clients asked **BEACON** why that time period reminds us of today.

Let's consider just how big (or pricy) the FANMAG stocks are today—in the past decade the combined market value of the FANMAG'S has grown from $700 billion to over $5 trillion (today). The chart left was produced June 2019 by Research Affiliates LLC when the market cap of the FANMAG'S was just over $4 trillion. If FANMAG was a country, it would be larger than the entire market capital value of every developed country except the U.S. and Japan! A few other facts offer perspective. Apple is now worth more than the entire S&P energy sector, and Apple plus Microsoft combined is larger than the 2,000 stocks in the Russell 2000 Index. If we remove FANMAG from the S&P 500 technology sector, we are left with a sector that is smaller than either the financial or healthcare sectors.



"Those Who Fail To Learn From History Are Doomed to Repeat It" WINSTON CHURCHILL 1948 (continued)



Let's go further and consider another technology/auto company, Tesla, whose market cap is larger than any other auto company in the U.S., and even the world ex-Toyota and Volkswagen. With a $90 billion market cap, Tesla is larger than General Motors and Ford *combined*. And yet, Tesla's annual revenues are 17% as large as that of General Motors and less than 10% of the revenues of Toyota or Volkswagen! That's revenues—forget profits! Now, we're not predicting Tesla won't grow into it's pants, but the market is prepaying for an outcome decades in the future as though it is a certainty. Or, it is a myopic overconfidence that forgets **"trees (or Tesla's) don't grow to the sky."**

Remember the Palm Pilot (image top-right)? For anyone under 40 it was this neat device in the mid-1990's that every professional owned to track their calendar. Palm, maker of the Palm Pilot, at one time became larger than General Motors. It was truly a "disrupter" in the industry and yet, it was "disrupted" by the Blackberry (image middle-right), which itself was "disrupted" and displaced by the iPhone (image bottom-right). What's the moral of this tech-trail story? Companies in every industry often get knocked from the top perch and frequently fail to regain their glory, or fail entirely. And that's especially true in technology where rapid product development and introduction (technical obsolesce), and fickle consumers, often means short product-lives. Reasons for diminished results are varied, but often regulators get involved (are you listening Facebook and Google?), or competitors gain an edge (Apple can you hear Samsung?), or the company simply cannot reproduce success (remember Nokia?; also, think of the historical highs, lows, recoveries of Apple).

At **BEACON**, we seek to learn from market history to apply sound investing principles to your portfolio strategy. Today we would not commit capital to so-called *passive** strategies like market-cap weighted index funds or ETF's. In actuality, passive is hardly passive—it is a growth-tilted, momentum-chasing, popularity-contest that makes huge bets on the most expensive assets. In contrast, our stock managers each are *active* featuring bottom-up research, high active-share (a measurement of deviation from an index), low fees and expenses, low turnover, and close alignment of interests with "skin in the game." And remember, **BEACON** invests our own capital just as we do yours—we "eat our own cooking." Bon Appétit!

So, enjoy your iPhone 11 with the new camera and features. Just don't presume a "disrupter" isn't lurking to replace it next time!

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 2005-2019—a notable period including the **"Great Recession"** of 2007-2009—a 60/40 **Asset Allocation** returned 6.6% annualized (see **RED CIRCLE** below). Indeed **Asset Allocation's** solid multi-year return rivaled the returns of the worlds' developed stock markets (ex-US), was 5X greater than **Cash** (i.e. money in the bank), with risk (volatility) much less than stocks (see **RED BOX** below). Plus, 2019 was kind to investors as **Asset Allocation** gained 19.5% and the *best* returner was **US LARGE CAP** at 31.5% versus the *laggard* **CASH** at 2.2%. 2019 witnessed positive returns in all major asset classes following a rough 2018 Q4. 2019's exceptional stock *and* bond returns surprised most market strategists, and served to remind investors it's best to stay with a well-developed plan**.** 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 connected with the black line-graph clearly produced that *smoothing* result across the full length of the turbulent 2005-2019 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)

GREAT RECESSION (2007–2009)

2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2005 - 2019 Ann.	2005 - 2019 Vol.
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%	Small Cap 21.3%	EM Equity 37.8%	Cash 1.8%	Large Cap 31.5%	Large Cap 9.0%	REITs 22.2%
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 14.3%	DM Equity 25.6%	Fixed Income 0.0%	REITs 28.7%	REITs 8.3%	EM Equity 22.1%
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%	Large Cap 12.0%	Large Cap 21.8%	REITs -4.0%	Small Cap 25.5%	Small Cap 7.9%	Comdty. 18.6%
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%	Comdty. 11.8%	Small Cap 14.6%	High Yield -4.1%	DM Equity 22.7%	EM Equity 7.8%	Small Cap 17.7%
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%	EM Equity 11.6%	Asset Alloc. 14.6%	Large Cap -4.4%	Asset Alloc. 19.5%	High Yield 7.2%	DM Equity 17.3%
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%	REITs 8.6%	High Yield 10.4%	Asset Alloc. -5.8%	EM Equity 18.9%	Asset Alloc. 6.6%	Large Cap 14.0%
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%	Asset Alloc. 8.3%	REITs 8.7%	Small Cap -11.0%	High Yield 12.6%	DM Equity 5.3%	High Yield 10.9%
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%	Fixed Income 2.6%	Fixed Income 3.5%	Comdty. -11.2%	Fixed Income 8.7%	Fixed Income 4.1%	Asset Alloc. 10.0%
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%	DM Equity 1.5%	Comdty. 1.7%	DM Equity -13.4%	Comdty. 7.7%	Cash 1.3%	Fixed Income 3.4%
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%	Cash 0.3%	Cash 0.8%	EM Equity -14.2%	Cash 2.2%	Comdty. -2.6%	Cash 1.0%

CHART FROM J.P. MORGAN ASSET MANAGEMENT 2020 Q1 GUIDE TO THE MARKETS - PAGE 60

"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).

Our STOCK and BOND Fund Partners for 2019: Green Lights all the way!

STOCKS returned double-digits all across the world and once again the U.S. markets led the way as the S&P 500 Index advanced over 30%. Among our stock partners our real estate partner Cohen & Steers Institutional Realty (CSRIX) gained 33%. Recall the dire "headline news" Amazon's online sales would eliminate brick and mortar outfits. Well, there are businesses that have been impacted as retail is quite fickle. But, the REIT industry is more than malls—it includes offices, data centers, storage, etc. and REIT's have proved quite resilient.

Our U.S. large cap partners, Dodge & Cox, Jensen, and Sequoia, produced returns in the mid-to-high 20% range, slightly below the S&P 500 Index. We're reminded that the FANMAG'S (see p. 1-2) are the primary drivers of the S&P 500 Index, and our managers are finding good value in neglected sectors like energy, financials, and health care. We think strategic patience will be rewarded. In the U.S. small cap space our Diamond Hill returned nearly 28% and outperformed the Russell 2000 Index.

Across the pond, our international partners Dodge & Cox and Causeway each advanced over 20% versus over 15% for the MCSI-EAFE $US Index. Tweedy Browne nearly matched the MCSI-EAFE at just under 15%.

Market Capitalization Formula = Total Number of Shares Allotted by the Company x Current Market Price of each Share

BONDS produced outstanding total returns despite near historic low interest rates in a world with about $17 trillion in *negative* yielding sovereign debt (yes, below 0% means you're paying a government to hold your assets). After the U.S. Federal Reserve ("FED") raised interest rates in Q4 of 2018, nearly every fixed income strategist predicted higher interest rates in the U.S. Well, they were all wrong as the yield curve declined and the FED cut interest rates in 2019. As **BEACON** has often explained to you, bond prices are inversely related to interest rates so falling rates produced rising bond prices, boosting total returns. The U.S. benchmark Bloomberg Barclays Capital US Aggregate Index gained 9%+.

Among our taxable bond partners the top performer was Dodge & Cox Global with a total return north of 12% followed by Fidelity Strategic Income at 11%.

Our municipal bond partners AllianceBernstein and Fidelity also had robust total returns in the high single digits to low double digits led by AllianceBernstein High Income's near 11% total return.

We caution you that the 2019 bond returns are not likely to be as high in 2020 as we're still in a low interest rate climate and returns likely will resemble the yield plus research-driven price gains. We remain convinced that a global bond strategy is superior to an all-U.S. portfolio.

2019 was a robust year for **BEACON'S** balanced, global portfolios. Clients' total returns ranged from 15% for conservative client-portfolios up to 20%+ for moderate-aggressive client-portfolios. Patience, persistence, and a long-term investment horizon are key to sustained investment success. As always, we encourage you to maintain a similar view.