September 2015

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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CHARTING THE COURSE

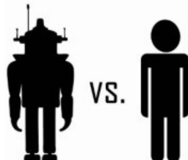
Special Series of Briefs About Beacon's Client Services

Active & Passive Investing Choices: *Comparing & Contrasting*

A **great debate** is raging in the U.S. today and proponents are fiercely asserting their case, often with vitriolic language that resembles an English soccer match. Can you guess which topic constitutes the "great debate"?:

a. US Supreme Court ruling on Gay marriage and states' rights.
b. Congress will, or will not, subpoena Hillary Clinton's private server.
c. The Obama Administration will, or will not, reach a landmark nuclear deal with Iran.
d. None of the above.

For those of you that guessed a., b., or c. you've been watching too much Fox News. If you guessed d., none of the above, then you're no doubt an investor because you know the "great debate" is ***active*** versus ***passive*** investment styles. The emergence of *automatic robo-investing*, in which computer algorithms guide investment decisions, is the latest development in ***passive*** strategy. Wikipedia has a succinct description of the two styles: *"Active management (also called active investing) refers to a portfolio management strategy where the manager makes specific investments with the goal of outperforming an investment benchmark index. In passive management (also called passive investing), investors expect a return that closely replicates the investment weighting and returns of a benchmark index and will often invest in an index fund."*



Described another way, proponents of ***passive*** investing believe that capital markets are efficient and security market prices reflect all known information, thus it is difficult (or impossible) to outperform indexes so there is no added-value to incurring costs (i.e. research) seeking to do so. Prominent advocates of passive investing include John Bogle (Vanguard). That Vanguard is among the largest investment firms clearly indicates his voice for passive investing resonates with many investors. Mr. Bogle has championed low cost investing as a key predictor of investment outcomes. Vanguard is synonymous with low-cost index investing—however, that Vanguard also manages almost $1 trillion in "active" style mutual funds surprises many. Predictably, ***active*** investing adherents believe there are inefficiencies in capital markets that good research can exploit such that, over time, a measure of outperformance (aka "alpha") is available. Early proponents of research-driven, ***active*** investing included Benjamin Graham and Warren Buffet. Graham once wrote: *"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."* To **BEACON**—while we risk sounding like equivocators—we think Bogle and Graham are both correct—low fees and quality research are a great combination. As we'll see on p. 2, ***passive*** investing involves an awful lot of ***active*** decisions.

(continued p. 2)

Active & Passive Investing Strategies: ***Comparing & Contrasting—PASSIVE INVESTING REQUIRES LOTS OF ACTIVE CHOICES***

"I'm reminded of a gentleman who discovers a genie in a bottle. Granted only one wish—apparently even genies have pricing power—the man asks for peace in the Middle East. The genie backs away and says, *"That's way too difficult. Give me something easier."* The man ponders his options and asks the genie instead, to help him pick a good mutual fund. The genie quickly responds, *"Let me get to work on the Middle East."* Steven Romick, First Pacific Advisors in June 2015 speech to CFA Society Chicago

In his highly insightful blog of 7/24/14 **The Myth of the Passive Investor**, AllianceBernstein money manager Patrick Ruden illustrates **active choices in passive investing**: https://blog.abglobal.com/post/en/2014/07/the-myth-of-the-passive-investor

Some investors have such little faith in the merits of active management that they **prefer to take a 100% passive approach. We think they may be making more active decisions than they realize**. **Those who go passive** know why they're doing it. Instead of paying active managers to try to select securities to beat a particular index, **they've decided to hire managers to track that index. Yet this approach involves several active choices**. **First, passive investors must decide how to allocate their assets**. A US investor, for example, might decide to be 50% in US bonds, 25% in US equities and 25% in international equities. **Next, passive investors must choose which indices they want tracked**. Our US investor might select the Barclays US Aggregate Bond, the S&P 500 and the MSCI EAFE indices respectively. So far, so straightforward. **But getting to this point has required a lot of active decision making. The important decision about how much to allocate to bonds versus equities is an active choice. And so is the decision about how much to allocate to US versus non-US stocks**.

Who decides what? In the case of US equities, **by choosing the S&P 500 as the index to track, our investor has outsourced stock selection decision making to the S&P committee**. This committee actively selects the 500 companies that it believes most accurately represent the US economy. The committee's periodic announcement of which stocks are being added to, and which stocks are being deleted from, the index creates investable price anomalies. Investors who don't track the benchmark can profit from not taking the closing prices on the day the index is reconstituted. Indeed, investment banks have historically had units focused on capturing the profit from going long a basket of index additions and short a basket of index deletions. **Active decisions are also unwittingly being made in non-US benchmarks. By selecting MSCI EAFE as the index to track, an investor has chosen to exclude smaller-cap stocks and the stocks of companies listed in emerging markets**. MSCI also appropriately makes active decisions about how it will build its index, including how it best represents the equity opportunity. For example, MSCI determines the classification of countries as emerging or developed—this can create substantial differences versus the classification by other index providers like FTSE.

Choices, choices, choices…When it comes to **selecting a passive manager to track the index, there are further choices to make**. **Does the manager attempt to fully replicate the index or not?** If fully replicating, does the manager have leeway to trade intelligently around index reconstitutions? Taking the closing price on the day the index is reconstituted will minimize tracking error, but comes with an opportunity cost. If the manager is sampling, rather than replicating, an index, what is the sampling methodology? Some investors don't believe they can successfully identify stock pickers on an ex ante basis. Therefore, they—quite rightly—choose not to do so. But **passive investing may be a misnomer. Asset allocation and index selection are important active decisions**. And so is the decision about how a tracking manager will track. **So investors should recognize when [electing to go passive] they are making active decisions that are likely to have a significant impact on their investment outcomes—and think carefully about the choices they make.**

(continued p. 3)

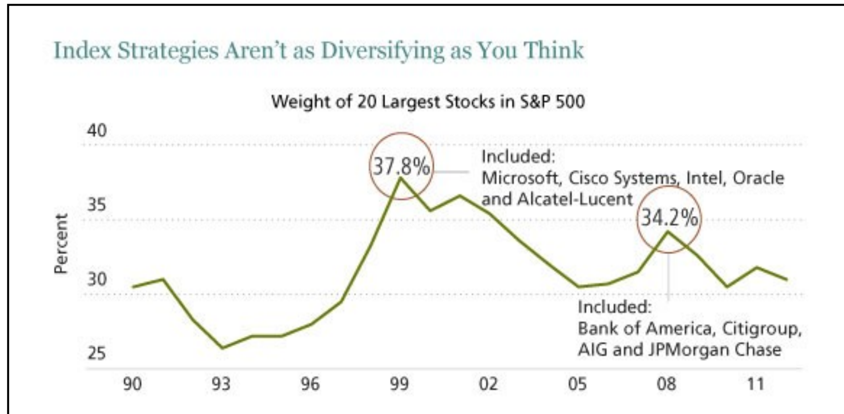
Active & Passive Investing Strategies: ***Comparing & Contrasting—IS EXCLUSIVELY PASSIVE INVESTING A SUITABLE ALL-SEASON APPROACH? Part 1***

"Nowadays people know the *price* of everything and the *value* of nothing." Oscar Wilde, *The Picture of Dorian Gray*

In the recent past investors have opted to direct more funds to ***passive*** investments including index mutual funds and ETF's (Exchange Traded Funds) than to ***active*** managers. Research demonstrates the strategy in favor (active v. passive) during any given period hinges in part on the prevailing market conditions including market breadth (stocks advancing/declining) and the dispersion and correlation of returns of stocks within indexes (see HTML below). https://advisor.fidelity.com/app/literature/item/9858301.html?pos=AS&fromSearchAC=true&searchQuery=Market%20Conditions%20

BEACON understands the appeal of passive investing—lower fees, relative simplicity, and evidence that many ***active*** managers have struggled to "consistently" beat a benchmark. The "great debate" is so prominent that Morningstar has introduced "*a new yardstick for an old debate*"—Morningstar's Active/Passive Barometer—"*aiming to give investors a better sense of their odds of picking winning managers across asset classes and categories while taking real-world factors into consideration*". The most recent development in ***passive*** investing is *automatic robo-investing* allowing investors (particularly those with modest portfolios) to complete an online application and questionnaire, and then computers using algorithms will create portfolios of low-cost ETF's. Online firms like Betterment and Wealthfront are leaders in robo-investing. In late 2014 Charles Schwab introduced *Intelligent Portfolios™* for retail account holders, and in June 2015 they announced *Institutional Intelligent Portfolios™* available to clients of advisors like **BEACON.** Most robo-advisors boast they offer *only* ***passive*** investing. Among others, one key question arises: Is exclusively ***passive*** investing truly a suitable all-season approach?

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***. A decision to go ***all-passive*** should not be undertaken without understanding the potential consequences. Investing in an S&P 500 Index-like fund feels like effective diversification but index funds are "price takers." When stocks or sectors become expensive or bubbly, or when the opposite is true in deteriorating entities, the index fund will still own these. Prior periods just before the S&P 500 Index collapsed it included large distortions in weightings—energy stocks in the early 1980's at 27%; 20 technology stocks in early 2000 constituted 38% of the index; financial stocks in 2008 such that 35% of the S&P 500 Index's capitalization was in the largest 20 stocks including big banks like Citigroup whose share price declined from $45 to $0.95 (dollars to cents)! The risk of rising interest rates demands attention today, and indexes hold many stocks that historically have a negative-sensitivity to rising rates. Think about disruptive innovation in which rapid technological change threatens traditional businesses and products. Disruptive innovators can be considered game changers—recent examples include cameras in smartphones replacing digital point-&-shoot models, or Amazon.com replacing brick-and-mortar bookstores. Index investing isn't very good at avoiding tomorrow's Border's Bookstore. Then there is political (or geopolitical) risk that sometimes unfolds abruptly or on slow-boil—like when government meddles in companies or industries (e.g. presently the U.S. coal industry is under assault by EPA regulations). ***Active*** managers, as "price makers", can manage risk and pursue opportunity, whereas as "price takers" ***passive*** indexes simply cannot. On p.4 we'll consider investing lessons from baseball's active managers.



(continued p. 4)

Active & Passive Investing Strategies: ***Comparing & Contrasting—IS EXCLUSIVELY PASSIVE INVESTING A SUITABLE ALL-SEASON APPROACH? Part 2***

"Our favorite holding period is forever." Warren Buffett, *Chairman Berkshire Hathaway in 2010 shareholder letter*

In his highly insightful blog of 8/10/15 **Investing Lessons from Baseball's Active Managers**, AllianceBernstein money manager James Tierney, Jr. offers a timely and easily understood analogy that answers NO to our header question: Is exclusively passive investing a suitable all-season approach?
https://blog.abglobal.com/post/en/2015/08/investing-lessons-from-baseballs-active-managers?mid=corpblog001

As the popularity of passive investing continues to gain momentum, take pause to think about a lesson from baseball. **The question is: what kind of equity lineup creates a winning team?** Nobody can deny the increasing shift of equity investors toward index strategies. Net flows to passive US equity funds have reached $21.7 billion this year through June, while investors have pulled $83.7 billion out of actively managed portfolios, according to Morningstar. In this environment, active managers are increasingly challenged to prove their worth and justify their fees.

Building a Winning Lineup Baseball provides an interesting analogy for the active equity manager. Across all players in Major League Baseball, the batting average this season is .253, as of August 6. Yet even in today's statistics-driven environment, **you won't find a single team manager who would choose to put together a lineup of nine players who all bat .253—even if it were possible**.

The reason is clear and intuitive. **For a baseball team to be successful, you need to have at least a few hitters who are likely to get hits more often than their peers**. And to create a really robust lineup, a manager wants a couple of power hitters who pose a more potent threat. Of course, some hitters will trend toward the average and slumping players will hit well below the pack. That's why you need a diverse bunch. **A team comprised solely of .253 hitters is unlikely to have the energy or the momentum needed to win those crucial games and make the playoffs**.

False Security in Average Performance **So what does this have to do with investing? When an investor allocates funds exclusively to passive portfolios, it's like putting together an equity lineup that is uniformly composed of .253 hitters**. This lineup might provide a sense of security because returns will always be in synch with the benchmark.

But it's little consolation if the benchmark slumps. **A passive equity lineup won't be able to rely on any higher-octane performers to pull it through challenging periods of lower, or negative, returns**.

Still, many investors fear getting stuck with a lineup of .200 hitting active managers. We believe the best strategy to combat that risk is to focus on investing with high conviction managers, who have a strong track record of beating the market, according to our research.

Passive and Active: The Best of Both Worlds Passive investing has its merits. Investors have legitimate concerns about fees as well as the ability of active managers to deliver consistent outperformance. The appeal of passive is understandable.

Yet we believe that putting an entire equity allocation in passive vehicles is flawed. **It leaves investors exposed to potential concentration risks and bubbles that often infect the broader equity market.** And with equity returns likely to be subdued in the coming years, beating the benchmark by even a percentage point or two will be increasingly important for investors seeking to benefit from compounding returns and meet their long-term goals. There is another way. By combining passive strategies with high-conviction equity portfolios, investors can enjoy the benefits of an index along with the diversity of performance from an active approach, in our view. Baseball managers don't settle for average performance. Why should you?

On p.5 we'll consider both ***active*** and ***passive*** are essential to financial markets as each respectfully provides ***information discovery*** ("price making") and ***liquidity*** (price taking").

(continued p.5)

Active & Passive Investing Strategies: ***Comparing & Contrasting—ACTIVE AND PASSIVE BOTH ESSENTIAL TO FINANCIAL MARKETS...LONDON'S "WOBBLY" BRIDGE***

Active and Passive Investing: Both Are Essential to Long-Term Financial Market Health

The growth of passive investing during the past decade has spawned volumes of research to support the merits of this low-cost investment approach, and to make the case either for or against active management. While many financial market participants continue to debate the merits of one approach or the other in this longstanding argument, both may warrant a place in a diversified portfolio given their respective risk characteristics and cyclical performance leadership.[1] This article will evaluate the growth of passive strategies in the context of risk, with a particular emphasis on systemic risk created by passive strategies.

In today's financial system, the presence of active and passive strategies contributes two necessary functions that help provide operational stability in the financial markets: information discovery and liquidity.

- **Information discovery.** In a free-market economy, financial markets play a key role in generating and distributing information about corporate, private, and sovereign issuers through active management, which in turn fosters independent decision-making and the effective allocation of financial capital. The prevalence of information influences security prices. If an investor has favorable information about a security, it will often lead to the purchase of that security and drive up its price. Conversely, unfavorable information often leads to selling activity and downward pressure on prices. Thus, active strategies can be viewed as "price makers." In the aggregate and over time, financial capital tends to flow to the securities issued by companies performing well, meaning those that are growing their earnings via the development of innovative products or services. Such a system helps foster economic advancement over the long term.

- **Liquidity.** A liquid asset is one that can be traded easily in a reasonable quantity without incurring large transaction costs. For financial markets to operate effectively, there has to be sufficient liquidity. A significant number of buyers and sellers must be present to represent each side of a trade. Otherwise, an investor holding a financial asset will not be able to recoup his or her investment at a desired market price. Passive strategies, such as index funds and exchange-traded funds that automatically purchase baskets of securities representative of an index's holdings near current market prices, provide a significant amount of liquidity to the financial markets. Passive strategies thus can be seen as "price takers," accepting both the current market price and the weight (i.e., importance) of those securities in an index, while injecting liquidity into the marketplace.

If information is not discovered and there is a lack of liquidity, a market will not operate as effectively. Put another way, just as an engine requires oil and gasoline to operate an automobile, a healthy financial market needs both the discovery of information and sufficient liquidity.

Growth of passive investing and equity market dynamics

During the past decade, two trends within the U.S. equity market—rising stock correlations and increased volatility—coincided with the rise in popularity of passive investing strategies. Specifically:

Ren Cheng
Senior Research Consultant

KEY TAKEAWAYS

- Financial markets play a key role in the allocation of resources in a free-market economy, and two important functions vital to the healthy operation of financial markets are information discovery and liquidity.
- Passive strategies—those that purchase the holdings in an index at existing market prices—create liquidity in financial markets, but inject no information about companies into the markets.
- Active strategies—those that utilize independent research and analysis to make investment decisions—create information that leads to disparate investment decisions, and security price differentiation between "good" and "bad" companies at the expense of liquidity.
- The increase in market share of passive strategies during the past decade has diluted the amount of information in the marketplace, contributing to an increase in equity market correlations and volatility, as well as an amplification of systemic risk.
- Financial markets need a combination of both active and passive approaches to remain reasonably stable and liquid, and to drive the economy forward via the efficient allocation of financial capital.

Among all the many research white-papers in **BEACON'S** library comparing and contrasting ***active*** and ***passive*** strategies, one of the best is "Active and Passive Investing: Both Are Essential to Long-Term Financial Market Health", Ren Cheng, Senior Research Consultant Fidelity Investments, June 2012. The paper is but 4 pages long and reading it in entirety is the best way to capture the concept (see HTML below). Here in this SERVICE-BRIEF, BEACON will insert Cheng and Fidelity's Key Takeaways and the excellent illustration Cheng included known as "the Millennium Bridge effect" and it's sub-illustration "why soldiers break stride on a bridge" to **understand why *passive* investing *alone* amplifies risk and volatility.**
(https://advisor.fidelity.com/app/literature/item/943048.html?pos=AS&fromSearchAC=true&searchQuery=Active%20and%20Passive).

"Why Do Soldiers Break Stride On A Bridge", Life Science, May 22, 2013
http://www.livescience.com/34608-break-stride-frequency-of-vibration.html
In April 1831, a brigade of soldiers marched in step across England's Broughton Suspension Bridge. According to accounts of the time, the bridge broke apart beneath the soldiers, throwing dozens of men into the water. After this happened, the British Army reportedly sent new orders: Soldiers crossing a long bridge must "break stride," or not march in unison, to stop such a situation from occurring again.

Structures like bridges and buildings...have a natural frequency of vibration within them. A force that's applied to an object at the same frequency as the object's natural frequency will amplify the vibration of the object in an occurrence called mechanical resonance...like when people walk in lockstep across a bridge (**analogous to investors buying same investments**).

A potent reminder of this was seen in June 2000, when London's Millennium Bridge opened to great fanfare. As crowds packed the bridge, their footfalls made the bridge vibrate slightly...many pedestrians fell spontaneously into step with the bridge's vibrations, inadvertently amplifying them...nicknamed the "WOBBLY bridge", it was closed while construction crews installed energy-dissipating dampers to minimize the vibration caused by pedestrians.

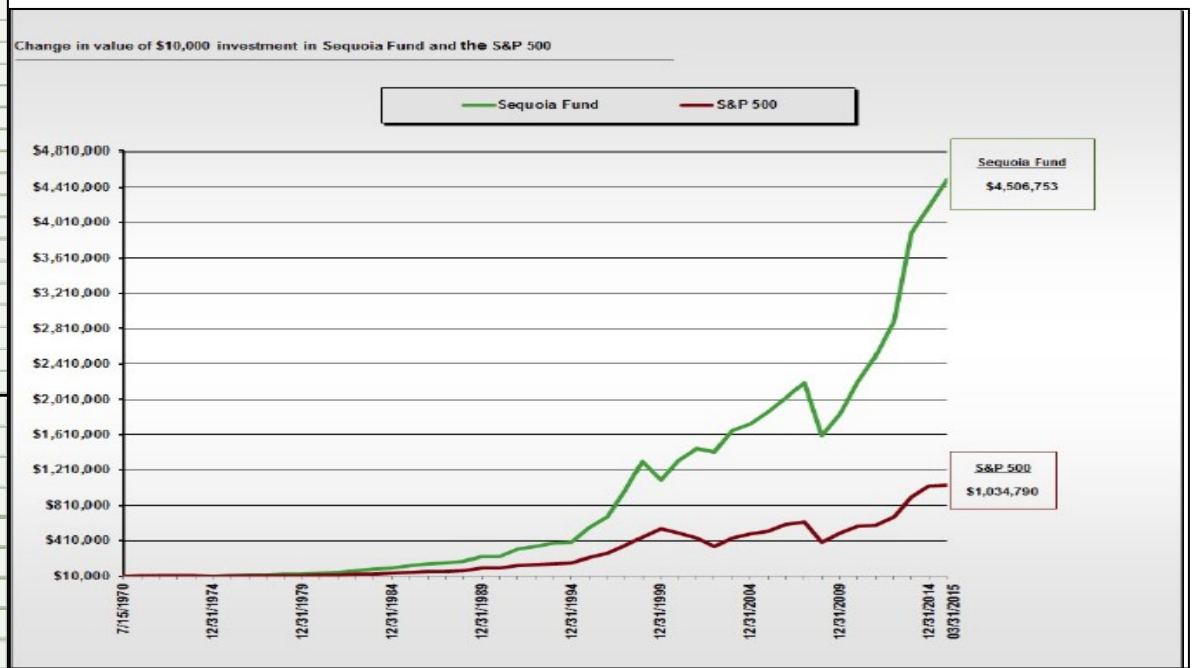
Cheng writes: As the Millennium Bridge analogy helps illustrate, when a greater number of investors are choosing the same investments via ***passive*** strategies, there is less independent decision-making, and therefore less information discovery driving market prices...markets have greater potential to remain more stable when there is sufficient number of investors making [active] diverse, independent investment decisions (i.e. information discovery)...as opposed to an overabundance of investors acting in unison via passive strategies (i.e. no information produced).

(continued p. 5)

Active & Passive Investing Strategies: *Comparing & Contrasting—SKILLED, ACTIVE MANAGERS CAN MANAGE RISK AND PURSUE OPPORTUNITY: Part 1*

Comparison of the Investment Return of the Sequoia Fund (from Inception) vs. the Standard & Poor's 500		
Average annual total return:	14.65%	10.93%
Change for the entire period:	44967.53%	10247.90%
Period Ending	Sequoia Fund	S&P 500
03/31/2015	7.67%	0.95%
12/31/2014	7.55%	13.69%
12/31/2013	34.58%	32.39%
12/31/2012	15.68%	16.00%
12/31/2011	13.19%	2.11%
12/31/2010	19.50%	15.06%
12/31/2009	15.38%	26.46%
12/31/2008	-27.03%	-37.00%
12/31/2007	8.40%	5.49%
12/31/2006	8.34%	15.80%
12/31/2005	7.78%	4.91%
12/31/2004	4.66%	10.88%
12/31/2003	17.12%	28.69%
12/31/2002	-2.64%	-22.10%
12/31/2001	10.52%	-11.89%
12/31/2000	20.06%	-9.10%
12/31/1999	-16.54%	21.04%
12/31/1998	35.25%	28.57%
12/31/1997	43.20%	33.34%
12/31/1996	21.74%	22.99%
12/31/1995	41.38%	37.53%
12/31/1994	3.34%	1.30%
12/31/1993	10.78%	10.06%
12/31/1992	9.36%	7.62%
12/31/1991	40.00%	30.45%
12/31/1990	-3.80%	-3.14%
12/31/1989	27.91%	31.65%
12/31/1988	11.05%	16.57%
12/31/1987	7.40%	5.22%
12/31/1986	13.38%	18.70%
12/31/1985	27.95%	31.76%
12/31/1984	18.50%	6.26%
12/31/1983	27.31%	22.56%
12/31/1982	31.12%	21.59%
12/31/1981	21.49%	-4.93%
12/31/1980	12.66%	32.51%
12/31/1979	12.05%	18.63%
12/31/1978	23.93%	6.51%
12/31/1977	19.88%	-7.20%
12/31/1976	72.37%	23.96%
12/31/1975	61.84%	37.30%
12/31/1974	-15.48%	-26.52%
12/31/1973	-24.80%	-14.72%
12/31/1972	3.61%	18.98%
12/31/1971	13.64%	14.29%
12/31/70*	12.11%	20.60%

For **BEACON** and our clients, the relevance of the "great debate" becomes, have we been able to identify and deploy ***active*** managers that have added-value, that is, produced better results than ***passive*** indexes, over full-market cycles? Yes, we believe we have. To illustrate what we mean, consider an example using one of our stock managers, Sequoia. On the left, the yearly returns of Sequoia (SEQUX) are compared with that of the S&P 500 Index. Highlighted in YELLOW are those 18 of 45 years SEQUX underperformed the index (40% of the time), including the initial 4 years 1970-1973. There were also 4 instances in which SEQUX underperformed 2 consecutive years. Circled in RED are those 7 years SEQUX significantly outperformed when the S&P 500 Index was losing big. So, 40% of the time SEQUX underperformed the S&P 500 Index. But, those key periods that SEQUX preserved wealth when the index was losing big helped contribute to 3.72% excess annual return in SEQUX (14.65% vs. 10.93%). As the chart below reveals, a $10,000 investment in SEQUX in 1970 created $4,506,753 by March 2015—over 4X more terminal wealth than $10,000 in the S&P 500 Index's $1,034,790. Other of **BEACON'S** ***active*** stock managers like Dodge & Cox, Gabelli, and Tweedy, Browne could also be featured as examples just like Sequoia to demonstrate that skilled ***active*** managers can reduce risk and pursue opportunity relative to ***passive*** index benchmarks, index-funds, or ETF's. To succeed in investing alongside ***active*** managers requires characteristics that too few investors possess—a keen understanding of what works in investing and patience to wait for the results. Aside from **BEACON'S** assertions, Morningstar® has interesting insights supporting our views. *(continued p. 7)*



Active & Passive Investing Strategies: ***Comparing & Contrasting—SKILLED, ACTIVE MANAGERS CAN MANAGE RISK AND PURSUE OPPORTUNITY: Part 2***

BEACON has some solid, independent support for our contention that we have been able to identify and deploy ***active*** managers that have added -value, that is, produced better results than ***passive*** indexes, over full-market cycles. Christine Benz, Director of Personal Finance at Morningstar®, wrote on 9/2/15: **When Active Management Isn't Irrational: *Defensible reasons to go active, along with some picks if you do*.** http://news.morningstar.com/articlenet/article.aspx?id=713505

Benz begins by noting the criticism leveled at investors for acting irrationally, too often, and to their detriment. She mitigates the charge by stating the mass shift of preference in recent years towards ***passive*** funds is rational rather than emotional—it is based on data. After spilling some ink about the low "success rate" of active funds in beating low-expense index funds, she pivots as follows: *"That said, there are some situations where investors could reasonably choose an active fund. Here's a discussion of some of those situations,* ***as well as active funds that would fit in those cases****."* (boldface by **BEACON** as Benz names several of **BEACON'S** long-time ***active*** mutual fund manager partners).

REASONS TO GO ACTIVE:

1. **YOU'RE LOOKING FOR DOWNSIDE PROTECTION**—*"Because index-fund managers don't have the option to hold cash or downplay unattractive pockets of the market, they can't play defense on behalf of their investors...some actively managed funds have in fact distinguished themselves with conservative positioning and strong downside protection, and they may well do so going forward, too. By smoothing out the bumps that can come along with making a pure investment in a market segment, as one does with index funds, many such funds can be easier to own as well."* Benz named **TWEEDY, BROWNE GLOBAL VALUE (TBGVX)**, a long-time **BEACON** international stock manager selection.

   Tweedy, Browne Company LLC
   Established in 1920

2. **YOU DON'T LIKE THE INDEX'S CONSTRUCTION**—here Benz discusses index funds, depending on their composition, often expose investors to parts of the market, or individual companies, that are overvalued—sometimes very much so—and she reflects on past examples and current exposures as in the present case of fixed income Benz notes the Barclay's Aggregate US Bond Index has *"heavy government and quasi-government paper, as well as more sensitivity to interest-rate changes."* Benz named both of **BEACON'S** long-time ***active*** US bond managers **METROPITAN WEST TOTAL RETURN (MWTIX)** and **DODGE & COX INCOME (DODIX).**

   METWEST

3. **A HIGH QUALITY MANAGER IS AVAILABLE FOR CHEAP**—Benz observes that a few high quality ***active*** managers have expense ratios competitive with index funds. Benz named **BEACON'S** long-time ***active*** US stock manager **DODGE & COX STOCK (DODGX).**

   DODGE & COX®
   Established in 1930

Active & Passive Investing Strategies: *Comparing & Contrasting—GOAL BASED INVESTING...LET'S NOT MISS THE FOREST FOR THE TREES*

To **BEACON** the "great debate" of ***active*** versus ***passive*** investing styles is unnecessary because we don't have to choose one or the other—we can blend the approaches and features. In **BEACON'S** founding white-paper* originally drafted over twenty-years ago, we established our preference to combine investing styles (*BALANCED, GLOBAL INVESTING USING MUTUAL FUNDS; http://www.bfaltd.com/files/Balanced%20Global%20Portfolios%20Using%20Mutual%20Funds_2013.pdf).

> **Beacon Financial Advisors, Ltd. (Beacon) is a "balanced, global" portfolio manager. Rather than focus exclusively on a single asset class (stocks or bonds, etc.), we inclusively use multiple asset classes when building portfolios for clients. BALANCED because we diversify across asset types with different risk / reward profiles. GLOBAL because assets span the investment world's borders to take advantage of attractive investment opportunities wherever they present themselves. Money managers are often categorized by the investment "style" used such as growth, momentum, value, indexing, etc. In our role as portfolio manager, Beacon is free to use various money managers (via mutual funds), thus enabling clients to enjoy the diversification benefit of multiple styles in their portfolios. We're not locked into a single investment world-view, allowing for flexibility in our decisions.**

The "great debate" of ***active*** versus ***passive*** investing styles also distracts from the central purpose **BEACONS'** clients save and invest—to fund liabilities (i.e. goals) along life's path. Our clients' goals normally take the form of educating their children, building a home or business, making charitable gifts, funding retirement, and numerous other personally-important objectives. To fund liabilities (goals) requires assets (investments)—this is the principal reason our clients invest their money. On the contrary, **BEACON** has not yet had a new client list, as a primary financial life goal, outperforming the S&P 500 Index per se. So, for **BEACON** a key requirement in helping client's achieve their financial life goals is constructing and managing an appropriate risk-modeled portfolio. In our long experience, we have met this requirement by searching out and employing skilled, ***active*** managers capable of producing results that manage risk and pursue opportunity. We believe this approach has enabled us to meet a central tenant of our MISSION STATEMENT (see below)...win by not losing.

BEACON'S MISSION STATEMENT

Beacon Financial Advisors, Ltd. was established *to provide our clients long-term value-added financial counsel and investment performance with exceptional service*. Beacon purposes to work alongside our clients in *articulating*, *establishing* and *achieving* their financial life goals. Our financial planning and investment management precepts are based on a straightforward idea...win by not losing. Financial planning and investment management decisions are interrelated, and the most suitable decisions are reached in a thoughtful, orderly manner. 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.