



July 2017

**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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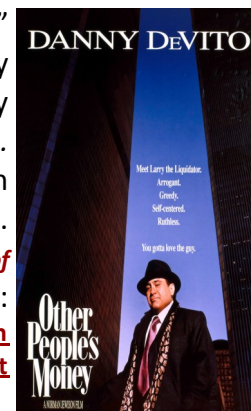
# CHARTING THE COURSE

Special Series of Briefs About Beacon's Client Services



## BEACON'S CULTURE OF ALIGNED INTERESTS

The 1991 comedy *Other People's Money* co-starred Danny DeVito as Lawrence "Larry the Liquidator" Garfield, a corporate raider on the prowl of companies to buy and then sell-off their assets. "Larry the Liquidator" was a funnier version of "Gordon Gekko", the corporate raider played by Michael Douglas in the 1987 film *Wall Street* ("Greed, for lack of a better work, is good!"). "Other people's money" ("OPM") as a popular term has a rather unsavory connotation conjuring up images of investment scoundrels like felons Bernard Madoff or Allen Stanford. Margaret Thatcher opined about OPM: *"The problem with socialism is that you eventually run out of other people's money."* The website [www.businessdictionary.com](http://www.businessdictionary.com) defines OPM this way: Money borrowed as unsecured loans, or contributed by smaller stockholders (shareholders). Equated with its abbreviation's homonym (opium) in its narcotic power on people who forget it is an obligation that must be accounted for, and repaid in some way.



As an investment advisor, **BEACON** is entrusted with "other people's money"—the hard-earned wealth our clients have entrusted us to manage. Unlike the OPM definition above, we don't view OPM as a narcotic, and we're ever mindful of our sober obligation to account to clients for our stewardship. In past issues of **BEACON'S** *Charting The Course* (our special series service briefs available at [www.bfaltd.com](http://www.bfaltd.com) in **BEACON'S LIBRARY**) we've focused on pertinent matters related to "other people's money":

- ⇒ In [Beacon Practices Good Ethics](#) we list three objectives that reveal **BEACON'S** commitment to ethical conduct—One, say what you do, do what you say; Two, be accountable; Three, demonstrate a track record.
- ⇒ In [More Than One Broker ≠ Less Risk](#) we describe the *layers of protection* manifest with clients' mutual fund shares held in their Charles Schwab brokerage accounts.
- ⇒ In [Beacon Eats Our Own Cooking!](#) (reprinted on pages 5-6) we underscore our aspirational goals about investing our clients' wealth—a **culture of aligned interests**.
  - ⇒ We favor mutual fund managers that invest significant sums of their own money in their own mutual funds—so-called "skin in the game" (see pages 2-4).
  - ⇒ **BEACON'S** employees and those of our extended family members & entities invest our own money in the same mutual funds as our clients—more "skin in the game" (see pages 4-6).



## BEACON'S CULTURE OF ALIGNED INTERESTS: SEC Requires Mutual Funds Disclose Managers' Investment In Their Funds

In 2004 the US Securities & Exchange Commission ("SEC") required mutual fund companies to disclose the \$ investment in funds by the managers of those funds. The disclosure is reported in each fund company's annual Statement Of Additional Information ("SAI"). Below are key excerpts of this important rule. The entire rule can be viewed at <https://www.sec.gov/rules/final/33-8458.htm>.

### SECURITIES AND EXCHANGE COMMISSION

17 CFR Parts 239, 249, 270, and 274

[Release Nos. 33-8458; 34-50227; IC-26533; File No. S7-12-04]

RIN 3235-AJ16

### DISCLOSURE REGARDING PORTFOLIO MANAGERS OF REGISTERED MANAGEMENT INVESTMENT COMPANIES

AGENCY: Securities and Exchange Commission.

ACTION: Final rule effective October 1, 2004.

SUMMARY: The Securities and Exchange Commission is adopting amendments to its forms under the Securities Act of 1933, the Securities Exchange Act of 1934, and the Investment Company Act of 1940 to improve the disclosure provided by registered management investment companies regarding their portfolio managers. The amendments extend the existing requirement that a registered management investment company provide basic information in its prospectus regarding its portfolio managers to include the members of management teams. **The amendments also require a registered management investment company to disclose additional information about its portfolio managers, including other accounts that they manage, compensation structure, and ownership of securities in the investment company** (boldface by BEACON).



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#### D. Disclosure of Securities Ownership of Portfolio Managers—

- ⇒ We are adopting a requirement that a fund disclose in its SAI the securities ownership in the fund of each portfolio manager who is required to be identified in the fund's prospectus.<sup>36</sup> This disclosure is intended to help investors assess the extent to which the portfolio manager's interests are aligned with theirs.
- ⇒ We are adopting, as proposed, a requirement that funds disclose portfolio managers' ownership of securities in the fund using the following dollar ranges: none, \$1-\$10,000, \$10,001-\$50,000, \$50,001-\$100,000, \$100,001-\$500,000, \$500,001-\$1,000,000, or over \$1,000,000
- ⇒ We continue to believe, on balance, that requiring disclosure of securities owned using a maximum dollar range of "over \$1,000,000" is appropriate. Disclosure of the dollar range of securities owned by a portfolio manager, rather than precise dollar holdings, is **intended to provide shareholders with significant information to use in evaluating whether a manager's interests are aligned with their own** (boldface by BEACON), while protecting managers' legitimate privacy interests. The maximum range of "over \$1,000,000" is intended to reflect a level of investment that would be significant. At the same time, we are not persuaded that requiring disclosure of the precise dollar holdings of securities owned is necessary.



**BEACON'S CULTURE OF ALIGNED INTERESTS: BEACON'S Mutual Fund Partners Invest Meaningfully Alongside Our Clients**

As part of BEACON'S due diligence in selecting our mutual fund partners, we evaluate their key disclosure reports including the all-important annual Statement of Additional Information ("SAI"). Without exception our mutual fund partners' key managers have a substantial financial investment alongside fund shareholders including BEACON'S clients. Tweedy, Browne is a 97-year old firm and BEACON'S clients have owned shares of their Global Value (TBGVX) fund for many years. At year-end 2016, current and retired principals and their families, as well as employees, had more than \$1.1 billion in portfolios that were combined with or similar to client portfolios. Dodge & Cox is an 87-year old firm and likewise, BEACON'S clients have held shares in their funds for decades. Below is an excerpt from their May 2017 SAI revealing "eating their own cooking."

*Ownership of Securities*

The following table indicates the dollar range of securities of each Dodge & Cox Fund beneficially owned by the Fund's investment committee members as of December 31, 2016.

AGGREGATE DOLLAR RANGE OF SECURITIES IN THE FUND		
	Dodge & Cox Stock Fund	Dodge & Cox Balanced Fund
<i>U.S. Equity Investment Committee</i>		
Charles F. Pohl	G	G
C. Bryan Cameron	G	G
Diana S. Strandberg	G	G
David C. Hoeft	G	G
Wendell W. Birkhofer	G	F
Steven C. Voorhis	G	G
Philippe Barret, Jr.	E	E
Kathleen G. McCarthy	E	E
	Dodge & Cox Global Stock Fund	
<i>Global Equity Investment Committee</i>		
Charles F. Pohl	G	
Diana S. Strandberg	G	
David C. Hoeft	G	
Roger G. Kuo	G	
Steven C. Voorhis	G	
Karol Marcin	G	
Lily S. Beischer	G	
Raymond J. Mertens	G	
	Dodge & Cox International Stock Fund	
<i>International Equity Investment Committee</i>		
Charles F. Pohl	G	
Diana S. Strandberg	G	
C. Bryan Cameron	G	
Roger G. Kuo	G	
Mario C. DiPischo	F	
Keiko Hoikan	G	
Richard T. Callister	G	
Englebert T. Bangayan	G	

	Dodge & Cox Balanced Fund	Dodge & Cox Income Fund
<i>U.S. Fixed Income Investment Committee</i>		
Dana M. Emery	G	G
Charles F. Pohl	G	G
Thomas S. Dugan	G	G
Larissa K. Roesch	G	F
James H. Dignan	F	G
Anthony J. Brekke	E	E
Adam S. Rubinson	G	G
Lucy I. Johns	E	E
	Dodge & Cox Global Bond Fund	
<i>Global Fixed Income Investment Committee</i>		
Dana M. Emery	G	
Diana S. Strandberg	G	
Thomas S. Dugan	G	
James H. Dignan	F	
Adam S. Rubinson	G	
Lucy I. Johns	E	

RANGES: A—NONE; B—\$1-\$10,000; C—\$10,001-\$50,000; D—\$50,001-\$100,000; E—\$100,001-\$500,000; F—\$500,001-\$1,000,000; G—MORE THAN \$1,000,000.

Dodge & Cox's profit sharing plan is 92% invested in shares of the Funds. As of December 31, 2016, the profit sharing plan held \$192,236,290 in the Funds.



**BEACON'S CULTURE OF ALIGNED INTERESTS: Close Alignment Of Interests Sounds Good...Does It Pay Off For Clients?**

**So** we've established that **BEACON'S** mutual fund partners have considerable "skin in the game" alongside our clients. However, the key question is does it pay off for the client-shareholders? The answer is yes, and even more so as the "skin" becomes larger. The seminal academic study by Ajay Khorana and colleagues published in 2007 in the Journal of Financial Economics revealed mutual funds with managers who are personally invested outperform their peers by an average of 1.44 percentage points per year. Their research also showed that the level of managerial ownership affects future fund performance—"For every basis point of managerial ownership, excess performance of the fund improves about 3-5 basis points." With most individuals having \$1 million+ in their funds, **BEACON'S** fund partners have much more "skin in the game" than the "average" fund manager as evidenced by Table 1 below. The entire article can be viewed at <http://faculty.london.edu/hservaes/jfe2007.pdf>.

Table 1  
Ownership of portfolio managers

This table reports the dollar amount and % ownership of portfolio managers in their own funds, as of year-end 2004. All funds are classified into the following six categories: balanced, bond, equity, international bond, international equity, and sector. The mean, 50th, 75th, 90th, and 100th percentile of manager ownership figures are reported. Funds report only the range of each manager's holdings (\$0, \$1-\$10,000, \$10,001-\$50,000, \$50,001-\$100,000, \$100,001-\$500,000, \$500,001-\$1,000,000, or above \$1,000,000). In Panel A, we convert these ranges into dollars by using the lowest value of the range and sum up across all managers in a fund. In Panel B, we convert them into dollars by using the average (midpoint) of each category and sum up across all managers in a fund. For the above \$1 million category, we set the ownership level at the bottom of the range. Managerial ownership percentage is computed as the dollar ownership of all the portfolio managers of a fund, divided by fund assets. % own refers to the percentage of funds with positive ownership.

*Panel A. Summary statistics of manager holdings (based on lowest value of range)*

Fund type	N	% own	Managerial ownership (in dollars)					Managerial ownership (in percent)				
			Mean	50th	75th	90th	100th	Mean	50th	75th	90th	100th
All funds	1,406	43	96,663	0	50,001	160,003	3,700,006	0.04	0.00	0.01	0.09	0.98
Balanced	62	47	82,904	0	20,003	110,002	2,000,002	0.03	0.00	0.01	0.15	0.33
Domestic bond	405	26	15,444	0	1	50,001	600,002	0.01	0.00	0.00	0.02	0.98
Domestic equity	606	51	154,861	1	100,001	510,003	3,700,006	0.05	0.00	0.02	0.15	0.97
International bond	26	42	10,001	0	10,001	50,001	100,001	0.01	0.00	0.01	0.03	0.14
International equity	158	47	84,115	0	100,001	200,002	3,000,003	0.05	0.00	0.02	0.09	0.90
Sector	149	56	115,034	1	50,001	500,001	2,000,002	0.05	0.00	0.02	0.18	0.69

*Panel B. Summary statistics of manager holdings (based on midpoint of range)*

Fund type	N	Managerial ownership (in dollars)					Managerial ownership (in percent)				
		Mean	50th	75th	90th	100th	Mean	50th	75th	90th	100th
All funds	1,406	149,570	0	75,000	405,000	4,350,003	0.08	0.00	0.03	0.22	2.91
Balanced	62	134,274	0	65,000	330,000	2,000,002	0.08	0.00	0.02	0.33	0.93
Domestic bond	405	36,219	0	5,000	75,000	1,050,000	0.03	0.00	0.00	0.04	2.24
Domestic equity	606	226,227	5,000	300,000	885,000	4,350,003	0.11	0.00	0.06	0.35	2.91
International bond	26	25,000	0	30,000	75,000	300,000	0.03	0.00	0.03	0.08	0.42
International equity	158	161,203	0	210,000	600,000	3,000,003	0.11	0.00	0.06	0.24	2.21
Sector	149	161,913	5,000	75,000	750,000	2,000,002	0.09	0.00	0.04	0.34	1.47

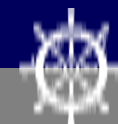


**BEACON'S CULTURE OF ALIGNED INTERESTS: BEACON "Eats Our Own Cooking too!"**

**In** BEACON'S Charting The Course we prepared **BEACON ANSWERS THE CLIENT'S QUESTION...Do You Eat Your Own Cooking?** (original March 1997, updated July 2015). Our answer is a resounding YES! We've reprinted that issue below and on page 6. In summary, we think investing our client's wealth alongside that of our mutual fund partners and ourselves is a bedrock principle to our **culture of aligned interests!**



**CHARTING THE COURSE**



*Special Series of Briefs About Beacon's Client Services*

**BEACON ANSWERS THE CLIENT'S QUESTION...Do You Eat Your Own Cooking?**

**W**ell, I must admit he didn't ask the question just that way, but his meaning was clear. In fact, his question actually went something like, **"Do you invest YOUR money the way you'll invest MY money?"** I hadn't really anticipated that question. You see, the year was 1983 and this meeting represented the first time I'd ever tried to convince a prospect to become my investment management client. I was 25 and he was 60. I was green, and he'd practiced law for over 35 years. I was nervous, and he was skeptical. I was...oh well, you get the picture?



I've replayed that scene in my mind many times since then. My first new client later told me of his "hard lessons" learned only after losing money to poor investments. And his question, etched forever in my minds-eye, taught me a very valuable lesson that inspires **BEACON'S** approach towards helping clients invest their hard-earned money. It's sort of a rephrased golden rule...***We shouldn't ask our clients to invest in anything that we wouldn't invest in ourselves, assuming similar objectives and constraints.*** If I wouldn't buy a limited partnership, why should I recommend one? If I wouldn't buy a mutual fund with a 5.75% load, why should I recommend one? From our firm's inception we have required that our employees, and by extension any of their family relations or entities that engage **BEACON**, invest in the same mutual funds as those we recommend to our clients. In July 2010 the US Securities & Exchange Commission ("SEC") substantially changed the ADV from a mostly "check the box" form to a plain English narrative covering eighteen (18) specific disclosure sections. On p. 2 we have inserted the section in **BEACON'S** ADV named Code of Ethics, Participation or Interest in Client Transactions and Personal Trading. You'll see we do indeed eat our own cooking.

In addition to *eating our own (good) cooking*, **BEACON** favors mutual fund managers that invest their own money in their mutual funds. For instance, Dodge & Cox's® mutual funds are among our earliest holdings in portfolios of our clients and **BEACON'S** principals—some dating back to the 1980's. All of Dodge & Cox's portfolio managers have substantial investments in their funds. According to Morningstar® over 60% of Dodge & Cox's portfolio managers have more than \$1MM personally invested in their funds—easily the highest percentage in the mutual fund industry. Additionally, Dodge & Cox's employer-sponsored qualified retirement plans have substantial employee-participation in their funds (92% of the plans in their own funds at end of 2016). Eating your own cooking—we think that is a great **recipe for success!**





**BEACON'S CULTURE OF ALIGNED INTERESTS: BEACON "Eats Our Own Cooking too!" (continued)**

**BEACON ANSWERS THE CLIENT QUESTION...Do You Eat Your Own Cooking?**

**Firm Brochure**

(Part 2A of Form ADV)

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**BEACON**  
Financial Advisors Ltd.

This brochure provides information about the qualifications and business practices of BEACON. If you have any questions about the contents of this brochure, please contact us at:

✦ Phone 713.622.9981

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The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission, or by any state securities authority.

Additional information about BEACON is available on the SEC's website at <http://www.adviserinfo.sec.gov>.

*"...we believe in "eating our own cooking" meaning our employees personal portfolios may hold the same no-load mutual funds we recommend to you. We believe this approach more closely aligns interests between us and you concerning our role in your securities transactions."*

**Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

Here we note that we are a fiduciary to you with a duty to act solely in your best interest. We have a written policies and procedures manual instructing our employees in practical ways to put your interests first.

**Code of Ethics**

The employees of BEACON have committed to a Code of Ethics that is available for review by you and prospective clients upon request. We will provide a copy of the Code of Ethics to you or prospective clients upon request.

Our Code of Ethics includes the following core principles:

- ✦ Objectivity
- ✦ Full Disclosure
- ✦ Integrity and Honesty
- ✦ Competence
- ✦ Confidentiality
- ✦ Professionalism
- ✦ Regulatory Compliance

**Participation or Interest in Client Transactions**

BEACON does not act as a principal, broker, or agent in regard to securities you buy or sell. We have no financial interest in any securities you buy or sell. As noted earlier in **Methods of Analysis, Investment Strategies and Risk of Loss** our recommendations to you exclusively include no-load mutual funds.

BEACON does not have, nor expects to have, any mutual fund shares like those we recommend to you (e.g. stocks, bonds, etc.). As noted earlier in **Advisory Business/Principal Owners**, BEACON is a limited liability company (LLC) taxed like a partnership. Practically that means all net income flows to the LLC members. It is likely BEACON will have a bank account and/or a brokerage account with funds held in short-term money market funds for normal operating expenses.

BEACON'S employees may buy or sell securities that are also held by clients. As noted above, our recommendations to you exclusively include no-load mutual funds. From a philosophical perspective, we believe in "eating our own cooking" meaning our employees personal portfolios may hold the same no-load mutual funds we recommend to you. We believe this approach more closely aligns interests between us and you concerning our role in your securities transactions.

**Personal Trading**

The Chief Compliance Officer of BEACON is Marcel J. Hebert. He reviews all employee trades each quarter. His trades are reviewed by Joshua J. Hebert. As noted above in our "eat your own cooking" observation, since all employee trades are mutual fund trades, the trades do not affect the securities markets.