BEACON'S POINT: LONG SUMMERS, SHORT WINTERS

SEPTEMBER 30, 2010

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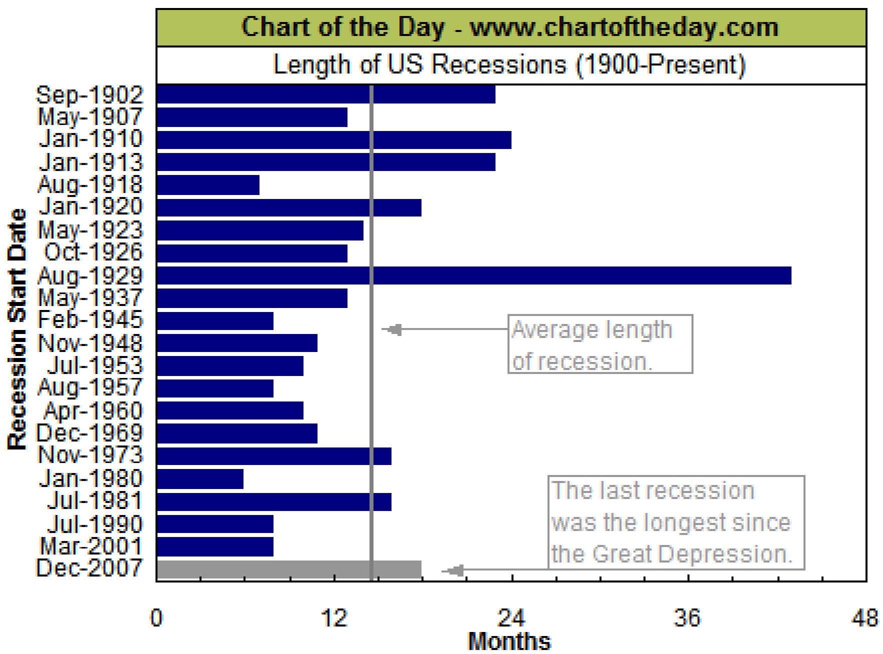
On a scorching 92 degree day in Newport Beach at the end of September, it may be hard to imagine rain falling from the sky ever again. Yet we know that sooner or later the weather will turn and people will reminisce about the beautiful summer days of 2010. Those of us living in Southern California are blessed with long summers and short winters. But even in our corner of the world, the seasons do change and, with them, the weather.

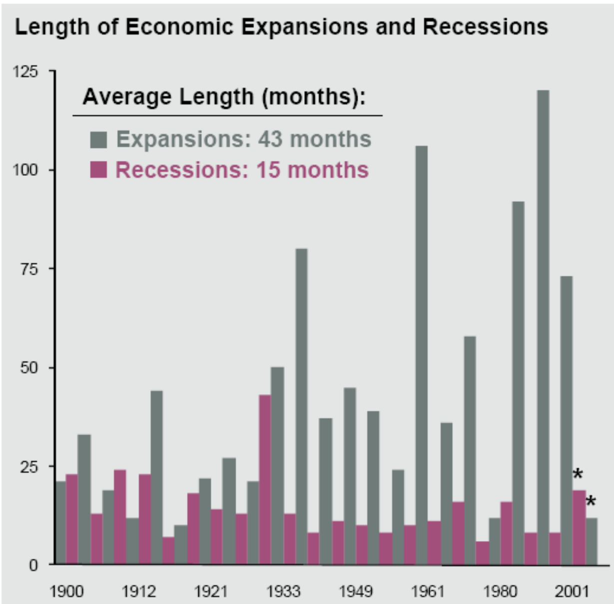
Likewise, the U.S. and global economies inevitably change seasons. Expansions follow contractions and then the cycle repeats. We now have confirmation that the "Great Recession" ended in June 2009 from the National Bureau of Economic Research ("NBER"), the official arbiter of U.S. economic cycles. This "Great Recession" lasted 18 months and was accompanied by a severe bear market in equities and other risk assets. As the following chart shows, of the 22 recessions that occurred over the past 110 years, the most recent recession is tied for fifth in terms of duration and is the longest since the Great Depression.



Source: Chart of the Day

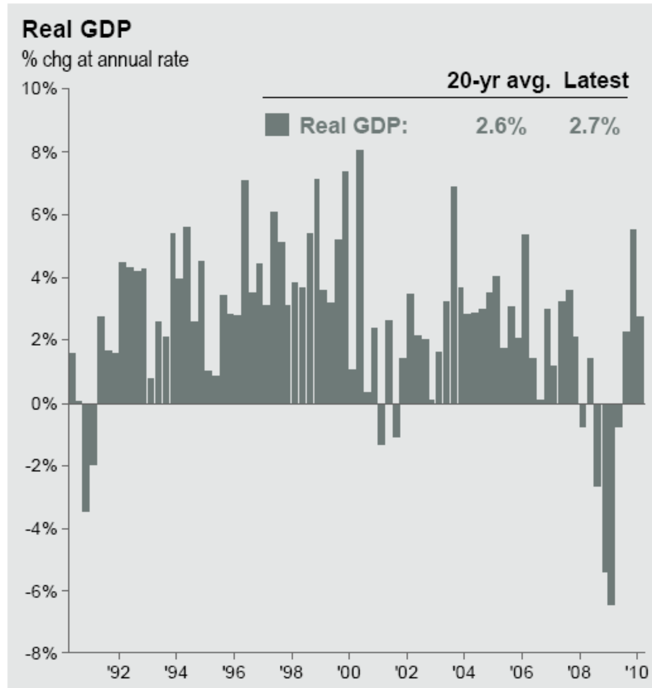
An economic expansion, therefore, started in July 2009 and is approximately 15 months old today. Historically, the expansion phase of the economic cycle has lasted significantly longer than the contraction phase. Based on NBER data, the average economic "summer" in the U.S. lasts 43 months, while the average economic "winter" lasts 15 months. Averages, of course, are dangerous statistics. They often create a false sense of comfort and should always be taken with a grain of salt. Few actual observations match the calculated averages. Furthermore, even during a robust expansionary period, GDP growth may take a break, just like a cold front might provide a holiday from the summer heat. For instance, a slow-down in certain key economic measures in recent months had many pundits predicting a double-dip recession. Others have argued that, while the economy is not growing at the rapid rate it registered in late 2009, it is far from falling into negative territory. It is only in hindsight that the exact timing of the change of seasons – and the turn in the economic cycle – can be determined with certainty.

Nevertheless, historical data from 22 economic cycles spanning the past 110 years provide a meaningful context for analysis of the "Great Recession" and the subsequent – and ongoing – expansion. The following charts from J.P. Morgan compare the current cycle to past history. (Please note that second quarter 2010 GDP growth of 1.7% is not reflected in the data below.)



Source: NBER, J.P. Morgan Asset Management.

Data for length of economic expansions and recessions obtained from the National Bureau of Economic Research (NBER). This data can be found at www.nber.org/cycles/ and reflects information through June 2010. *Assumes recession started December 2007 and ended June 2009. Assumes most recent expansion extended through June 2010.



Source: BEA, J.P. Morgan Asset Management.

Source: J.P. Morgan's "Guide to the Markets"

Meanwhile, the major market benchmarks enjoyed a nice run in September. The S&P 500 Index advanced approximately 100 points (from 1,050 to 1,150) or 9.5% over the past month and moved back into positive territory for the year-to-date period. This year has seen the type of extreme market swings that test investors' long-term focus and resolve. During August, many investors were ready to throw in the towel and head for the exits. Fast forward one month and overall market sentiment is much more positive. Surely, the economy could not have taken a sharp turn for the better in a matter of days!

Humans have short memories when it comes to economic seasons. A J.P Morgan analyst quipped at a recent investor meeting that "In the depth of winter, it is hard to remember sunshine and harder still to have the discipline to buy an A/C unit at a discount". Beacon Pointe's overriding goal is to build all-weather client portfolios that provide protection in inclement weather and benefit from the opportunities available in periods of growth and prosperity. Our collective memories are long and we constantly remind ourselves that the change in seasons is both natural and necessary. And while we believe that typically summers/expansions last longer than winters/contractions, we focus on a balanced, even-keeled approach to asset allocation, maintaining diversification and controlling risk, and recommending managers that have the skill, conviction, and discipline to buy A/C units in the depth of winter.

Please feel free to call Beacon Pointe at 949-718-1600 should you need additional information or have any questions.