BEACON POINTE
ADVISORS

Beacon's Point: Brick By Boring Brick

October 31, 2010

Confidential – Proprietary

500 Newport Center Drive, Suite 125, Newport Beach, CA 92660
TEL 949.718.1600 FAX 949.718.0601 www.bpadvisors.com

Beacon's Point: Brick By Boring Brick

In one of his famously entertaining quips, Mark Twain described October as "one of the peculiarly dangerous months to speculate in stocks. The others are July, January, September, April, November, May, March, June, December, August, and February." Traders and speculators often fixate on daily, weekly, or monthly performance. Long-term investors, on the other hand, are less concerned with returns over arbitrarily defined short time periods, such as weeks or months. Instead, they are focused on their long-term goals and a strategic discipline for managing their investments over their time horizons, which typically are measured in years and market cycles.

This particular October resulted in solid market returns that built upon a very robust September and added to the major indices' gains for the year-to-date period. Economic news during the month was broadly in line with or better than expectations; however, it appears that expectations are gradually moderating. Corporate earnings for the September quarter continued to beat consensus at a rate of about 70%. Companies in the S&P 500 Index (that have already reported results) grew revenues by almost 10% year-over-year, while earning per share increased by an even more impressive 40% over the past year. The wave of mergers and acquisitions gained momentum and provided additional support for equity markets in the U.S. and around the world.

The first week of November promises to be quite eventful for the U.S. from a political and economic perspective. Tuesday (November 2nd) will likely mark a new political equilibrium in Washington, DC. Expectations are for a Republican victory in the mid-term elections and, with that, a more centrist congressional agenda with regards to personal taxes, government spending, and business regulation. Wednesday's spotlight will be on Mr. Bernanke and the Federal Reserve. Market participants eagerly await confirmation of a new round of Quantitative Easing (affectionately referred to as QE II). Fed statements over the past few months gave unmistakable signals that such measures would be coming, as the pace of the recovery slowed, unemployment remained stubbornly high, and inflation approached zero. While a QE II announcement is almost a given, there is significant disagreement as to the size and structure of the program, and more importantly, its ultimate effectiveness in stimulating economic growth and jump-starting lending and job creation.

It takes tens of thousands of bricks to build a house. A brick is a boring thing; on its own, it reveals nothing about what the house will look like when finished. Building a house involves many choices – from the type of bricks to use, through layout design, to the finishing touches. As everyone involved in construction and remodeling knows, there are sure to be setbacks along the way – faulty materials, missed deadlines, and rain delays. There are always reasons to worry, but it is important to keep going in order to finish the project. Similarly, in investing, every week, every month, and every year give us reasons for anxiety. Hence the expression that markets "climb the wall of worry". Yet, for those who start off with quality materials and properly constructed plans, a patience, discipline, and long-term focus pay off in the end, as the "76 Reasons" exhibit on the following page (courtesy of Atalanta Sosnoff Capital) illustrates.

Someone once said that "the future is unknown, which is one of the more annoying things about it". While we, like everyone else, will be closely watching Tuesday's mid-term election results and Wednesday's Fed announcement, we recognize that the market's reaction to either event is far from certain. Instead, we keep an eye on the long term. This week, despite its importance, is just a short seven-day stretch in what is a long haul for investors. It is simply one of the tens of thousands of bricks that go into building investors' futures. Let speculators worry about short-term market reactions, price gaps, daily trends, or weekly bottom lines. We, as investors, remain focused on the big picture.

76 Reasons
Why People Did Not Invest in the Stock Market

1934	Depression	**1972**	Largest U.S. Trade Deficit Ever
1935	Spanish Civil War	**1973**	Energy Crisis
1936	Economy Still Struggling	**1974**	Steepest Market Drop in Four Decades
1937	Recession	**1975**	Clouded Economic Prospects
1938	War Clouds Gather	**1976**	Economic Recovery Slows
1939	War in Europe	**1977**	Market Slumps
1940	France Falls	**1978**	Interest Rates Rise
1941	Pearl Harbor	**1979**	Oil Prices Skyrocket
1942	Wartime Price Controls	**1980**	Interest Rates at All-Time High
1943	Industry Mobilizes	**1981**	Steep Recession Begins
1944	Consumer Goods Shortages	**1982**	Worst Recession in 40 Years
1945	Post-War Recession Predicted	**1983**	Market Hits New Highs
1946	Dow Tops 20 - Market Too High	**1984**	Record Federal Deficits
1947	Cold War Begins	**1985**	Economic Growth Slows
1948	Berlin Blockade	**1986**	Dow Nears 2000
1949	Russia Explodes A-Bomb	**1987**	Record-Setting Market Decline
1950	Korean War	**1988**	Election Year
1951	Excess Profits Tax	**1989**	October "Mini Crash"
1952	U.S. Seizes Steel Mills	**1990**	Persian Gulf Crisis
1953	Russia Explodes H-Bomb	**1991**	Communism Tumbles with the Berlin Wall
1954	Dow Tops 300 - Market Too High	**1992**	Global Recession
1955	Eisenhower Illness	**1993**	Health Care Reform
1956	Suez Crisis	**1994**	Fed Raises Interest Rates Six Times
1957	Russia Launches Sputnik	**1995**	Dow Tops 5,000
1958	Recession	**1996**	Dow Tops 6,400
1959	Castro Seizes Power in Cuba	**1997**	Hong Kong Reverts to China
1960	Russia Downs U-2 Plane	**1998**	Asian Flu & Long Term Capital
1961	Berlin Wall Erected	**1999**	Y2K Scare
1962	Cuban Missile Crisis	**2000**	Tech Bubble Burst
1963	Kennedy Assassinated	**2001**	9/11 Terrorist Attacks
1964	Gulf of Tonkin	**2002**	Recession
1965	Civil Rights Marches	**2003**	War in Iraq
1966	Vietnam War Escalates	**2004**	Rising Interest Rates
1967	Newark Race Riots	**2005**	Hurricane Katrina
1968	USS Pueblo Seized	**2006**	Real Estate Peaks
1969	Money Tightens - Markets Fall	**2007**	Liquidity Crisis & Subprime Lending
1970	Cambodia Invaded - Vietnam War Spreads	***2008***	Credit Crisis/ Financial Institution Failures
1971	Wage Price Freeze	***2009***	***Double Digit Unemployment Numbers***

And One Good Reason Why You Should Have:

$10,000 invested in the Stock Market (Standard & Poor's 500 Index) in January of 1934 would have been worth approximately **$21,271,113** *before fees* at the end of 2009.

For illustrative and educational purposes only. Results derived from the return of the S&P 500 Index including the reinvestment of dividends and interest and does not include a reduction of any fees. The S&P 500 Index consists of 500 stocks traded on the NYSE, AMEX and NASDAQ chosen for market size, liquidity, and industry group representation. It is a market value weighted index (stock price times number of shares outstanding), with each stock's weight in the Index proportionate to its market value. The "500" is one of the most widely used benchmarks of U.S. equity performance. The S&P 500 Index is unmanaged and not available for direct investment. Past performance is no guarantee of future results. Source: ASC Company Research.

Atalanta Sosnoff

©1986 Andy Warhol

Source: Atalanta Sosnoff Capital

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