


BEACON POINTE

ADVISORS

BEACON'S POINT: THE TRIANGLE DEFENSE

MARCH 15, 2011

CONFIDENTIAL – PROPRIETARY



These materials are confidential and being furnished solely to clients and prospective clients for informational purposes only and are not to be distributed. The materials may not be reproduced or disseminated without the express prior consent of Beacon Pointe Advisors, LLC. This information is obtained from internal and external research sources that are considered reliable, but the information's accuracy is not guaranteed by Beacon Pointe Advisors. Neither the information nor any opinion that may be expressed constitutes a solicitation, an offer to sell, or advertisement by Beacon Pointe Advisors, LLC. This material has been prepared for the general information only. It does not take into account the particular investment objectives, financial situation or needs of individual or the institutional investors. Before acting on any advice or recommendation in this material, you should consider whether it is suitable for your particular circumstances. Opinions expressed are the author's current opinions as of the date appearing on this material only. While the author may strive to update on a reasonable basis the information discussed in this material, there may be some factors or reasons that may prevent the author from doing so.

The Triangle Defense

The devastating events in Japan continue to send shock waves around the world. The human toll from the Sendai earthquake and the resulting tsunami is rising, worries about a nuclear disaster have escalated, and the scope of destruction of infrastructure and confidence in the stricken country appear overwhelming. This is, without a doubt, one of the biggest natural disasters in the past 100 years. **Our thoughts and prayers are with the Japanese people and everyone affected by the tragedy. Japan has the support of the entire world as it begins the long and painful road to recovery.**

According to Oppenheimer, *"Looking ahead, it is too soon to know the extent of the physical damage to affected areas of the country; much of it still remains inaccessible. Moreover, the disaster is still underway. Aftershocks continue to rock Japan, including Tokyo, and officials are frantically battling to avoid full or partial nuclear meltdowns at the Fukushima Daiichi power station. There, two reactors have lost cooling capacity, leading to explosions in the containment structures around the reactor cores. Officials were having what appears to be limited success at using seawater to cool the fuel rods in those two reactors, when a third reactor also lost cooling function. While Japanese officials maintain that the chances of a full nuclear meltdown are very low, the outcome of the situation remains unknown."*

Over the past week, global financial and commodity markets have been in retreat and volatility has once again spiked. On March 15th, the CBOE Market Volatility Index ("VIX"), the unofficial fear gauge, jumped 15%, as shown in the graph below. In just a matter of days, oil prices have lost approximately 7%, U.S. equity indices are trading 4% below their February highs, and the Nikkei 225 Index plummeted over 16% in just the past two days. Japan is the third largest economy in the world (as measured by contribution to global GDP), behind the United States and China. Naturally, a crisis in that country's economy will have an impact on the health and pace of global growth. However, Japan's successful and faster-than-expected rebuilding after the 1995 Kobe earthquake proves Japan's resilience and gives it the experience on which to draw that it will need at this time.



Source: Yahoo Finance

The catalyst for the global market correction was certainly tragic and unforeseen. On the other hand, a correction was perhaps overdue as we marked the second anniversary of the bull market that commenced in March, 2009. The uninterrupted upward march of equity indices created an environment where fundamentals did not matter much and where risky, high-beta stocks outperformed their higher-quality, financially stable, and consistently growing counterparts. As a result, many of the investment managers

BEACON POINTE RESEARCH

Beacon Pointe utilizes were challenged to keep pace over the past 12-24 months. Active managers in general, and conservative, fundamental, high-quality-biased managers, in particular, tend to lag the broad indices over short time periods such as the one we just experienced. Neither Beacon Pointe, however, nor the investment managers that we recommend for client portfolios deviated from the discipline and strategies that define Beacon Pointe.

Beacon Pointe's investment philosophy is built on three core tenets: 1) maintaining a long-term investment horizon in building and managing clients' assets in accordance with their risk/return profiles; 2) optimally diversifying portfolios across asset classes/investment styles and formulating strategic asset allocation targets; and 3) entrusting the management of each allocation within the portfolio with carefully researched and selected managers that have proven track records, high-caliber teams, strong research culture, and fundamentally-driven investment styles.



We believe that this "triangle defense" strategy serves as an anchor for client portfolios in times of stress, such as during the 2008 bear market and the current correction. Beacon Pointe's approach seeks to protect capital by limiting losses in down markets and minimizing volatility over time. Our long-term focus and discipline allow us to stay the course, while others chase performance and the latest tactical fad or "hot" new Wall Street product. Furthermore, we believe that strong defense is the best offense. As highlighted in last month's edition of Beacon's Point ("The Royal Road to Riches" dated February 4, 2011), the power of compounding means that over time you make more by losing less. It is, therefore, important to remain steadfast and not to over-react to short-term developments by changing strategies.

The benefits of portfolio diversification have been well-documented in the investment literature. The chart on the following page illustrates the changing leadership among major asset classes over time. For each calendar year, the best performing asset classes are shown at the top, while the worst performers appear at the bottom. No one asset class is consistently at the top of the pack; it is not possible to reliably forecast what the next year (or years) will look like; each asset class can play a crucial role in overall portfolio results over the long-run. For instance, International Equity (represented by the MSCI EAFE Index) was among the worst performers in the 2000-2002 period but followed with strong returns in 2003-2007. During the 2008 bear market, it dropped to the bottom of the pack, rebounded strongly in 2009, then again fell below the median in 2010. Looking at 2011, while the asset class posted solid results in the first two months of the year, March has turned out to be very challenging as the natural disasters in Japan dragged down that country's stock market and other exchanges followed suit.

The Case for Diversification

2010	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
REAL ESTATE 27.56	EMERGING MARKETS 79.02	FIXED INCOME 5.24	EMERGING MARKETS 39.78	REAL ESTATE 34.34	EMERGING MARKETS 34.54	REAL ESTATE 30.40	EMERGING MARKETS 56.28	COMMODITIES 25.91	REAL ESTATE 15.50	COMMODITIES 31.84	EMERGING MARKETS 66.41
EMERGING MARKETS 19.20	INTERNATIONAL EQUITY 32.46	CASH 2.06	COMMODITIES 16.23	EMERGING MARKETS 32.59	COMMODITIES 21.36	EMERGING MARKETS 25.95	INTERNATIONAL EQUITY 39.17	FIXED INCOME 10.27	FIXED INCOME 8.42	REAL ESTATE 25.88	HEDGE FUNDS 28.46
COMMODITIES 16.83	REAL ESTATE 27.45	HEDGE FUNDS -20.84	INTERNATIONAL EQUITY 11.63	INTERNATIONAL EQUITY 26.86	INTERNATIONAL EQUITY 14.02	INTERNATIONAL EQUITY 20.70	REAL ESTATE 38.47	REAL ESTATE 5.22	CASH 4.42	FIXED INCOME 11.63	INTERNATIONAL EQUITY 27.30
U.S. EQUITIES 15.06	U.S. EQUITIES 26.46	COMMODITIES -35.65	HEDGE FUNDS 9.73	U.S. EQUITIES 15.79	REAL ESTATE 8.26	U.S. EQUITIES 10.88	U.S. EQUITIES 28.68	CASH 1.80	HEDGE FUNDS 2.79	CASH 6.18	COMMODITIES 24.35
INTERNATIONAL EQUITY 8.21	COMMODITIES 18.91	U.S. EQUITIES -37.00	FIXED INCOME 6.96	HEDGE FUNDS 10.19	HEDGE FUNDS 7.47	COMMODITIES 9.15	COMMODITIES 23.93	HEDGE FUNDS 1.15	EMERGING MARKETS -2.37	HEDGE FUNDS 2.47	U.S. EQUITIES 21.04
FIXED INCOME 6.56	HEDGE FUNDS 11.45	REAL ESTATE -37.34	U.S. EQUITIES 5.49	CASH 4.85	U.S. EQUITIES 4.91	HEDGE FUNDS 7.18	HEDGE FUNDS 11.43	EMERGING MARKETS -6.00	U.S. EQUITIES -11.88	U.S. EQUITIES -9.11	CASH 4.83
HEDGE FUNDS 5.40	FIXED INCOME 5.93	INTERNATIONAL EQUITY -43.66	CASH 5.00	FIXED INCOME 4.33	CASH 3.07	FIXED INCOME 4.34	FIXED INCOME 4.11	INTERNATIONAL EQUITY -15.66	COMMODITIES -19.51	INTERNATIONAL EQUITY -13.96	FIXED INCOME -0.83
CASH 0.13	CASH 0.21	EMERGING MARKETS -53.18	REAL ESTATE -17.83	COMMODITIES 2.07	FIXED INCOME 2.43	CASH 1.33	CASH 1.15	U.S. EQUITIES -22.10	INTERNATIONAL EQUITY -21.21	EMERGING MARKETS -30.61	REAL ESTATE -6.47

	S&P 500
	MSCI EAFE Index
	MSCI Emerging Markets Index
	Barclays Capital U.S. Aggregate Index
	Merrill Lynch 91-Day U.S. Treasury
	Dow UBS Commodity Index
	HFRI Fund of Funds Index
	FTSE NAREIT All REITs



As discussed in past client letters, Beacon Pointe’s asset allocation strategy serves as a safe harbor for portfolios in turbulent times. When guiding our clients in devising an investment plan, we recommend diversification among asset classes (i.e. equities, fixed income, and – where appropriate – alternatives) as well as investment styles (i.e. value vs. growth, large cap vs. small cap, domestic vs. international) to create the most attractive risk/return profile for the aggregate portfolio regardless of the market environment du jour. Sticking with the asset allocation strategy throughout the cycle and rebalancing periodically give clients the best chance of attaining their investment goals over the long term. History shows that points of massive uncertainty have occurred many times in the past – remember “The Death of Equities” magazine cover by Business Week in 1979 – and each time investors who persevered with their discipline and remained focused on the long-term were rewarded.

Finally, Beacon Pointe's manager research and selection solidifies our defense and drives our offense. The investment managers we utilize remain closely tuned into geopolitical, economic, and market dynamics as well as specific company fundamentals. In fact, their portfolio management styles are much better suited for today’s market than the high-beta, low-quality rally of the past two years. Fear often creates opportunity. A market correction, while painful, results in more attractive valuations and provides active, bottom-up, concentrated managers with a real opportunity to add value and outperform the broad market and their benchmark-hugging peers. In addition, many of the firms we work with have been keeping a percentage of the portfolio in cash – this allocation not only helps dampen portfolio volatility in difficult markets, but also provides “dry powder” for making new investments at bargain prices that should generate significant returns over time.

BEACON POINTE RESEARCH

Commenting on the tragic news out of Japan, the highly-respected Portfolio Managers of International Value Investors ("IVA") made the following statement: *"Over the past five days, we watched the horrific events unfold in Japan, including earthquake, tsunami, potential nuclear meltdown, and loss of life. Unexpected events like this not only shake us as humans as we watch the carnage, but also remind us that the world can be a dangerous place for investing. We realize the importance of prudence, diversification, and risk controls."* Beacon Pointe's investment philosophy, built on the principles of the "triangle defense", will continue to navigate the changing and sometimes treacherous market environment with the prudence and resolve necessary for long-term success.

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