BEACON POINTE

ADVISORS

Beacon's Point: Much Ado About Something

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Confidential – Proprietary

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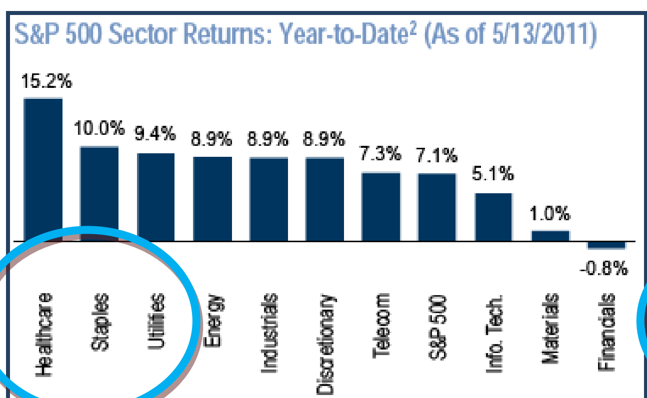
Much Ado About Something

The storyline of 2011 has so far been shaped by a cornucopia of economic challenges, geopolitical trials, and natural disasters. For the most part, markets shrugged these off and posted solid performance results, particularly during the first quarter of 2011. Nevertheless, a number of serious issues persist. From a global perspective, high on the list of investor concerns are the continuing volatility in commodity prices, the outlook for inflation and interest rates, peripheral Europe's ongoing credit problems, currency imbalances, and the sustainability of global corporate margins and earnings growth. Furthermore, U.S. investors face additional uncertainty borne by stubbornly-high unemployment levels, lack of improvement in the housing market, the approaching end of the Fed's QE2 program, the annual reconstitution of the Russell indexes which invariably creates volatility, the urgency of the U.S. debt ceiling issue, and the longer-term critical problems of escalating fiscal deficits and the sheer size of the national debt.

It is not surprising, therefore, that investors have begun to adjust to this environment. There are signs, we believe, that a more risk-aware, rational, and fundamentals-driven market has replaced the high-beta, low-quality rally that characterized much of the 2Q09-1Q11 period. Since March 31, 2011, for instance, small cap equities have significantly underperformed large cap equities in a reversal of the strong trend of small cap outperformance from the previous two years. In addition, sector leadership appears to be changing. Until recently, the stock market was propelled higher primarily by companies in the more cyclical/economically sensitive sectors. Specifically, in 2010 Consumer Discretionary, Industrials, Materials, and Energy led the way, as shown in the right-hand chart provided below. In contrast, sector rotation into more defensive names has resulted in a different picture for the year-to-date 2011 period. Healthcare, Staples, and Utilities are the best performing sectors in the S&P 500 Index this year, as shown in the left-hand chart provided below.

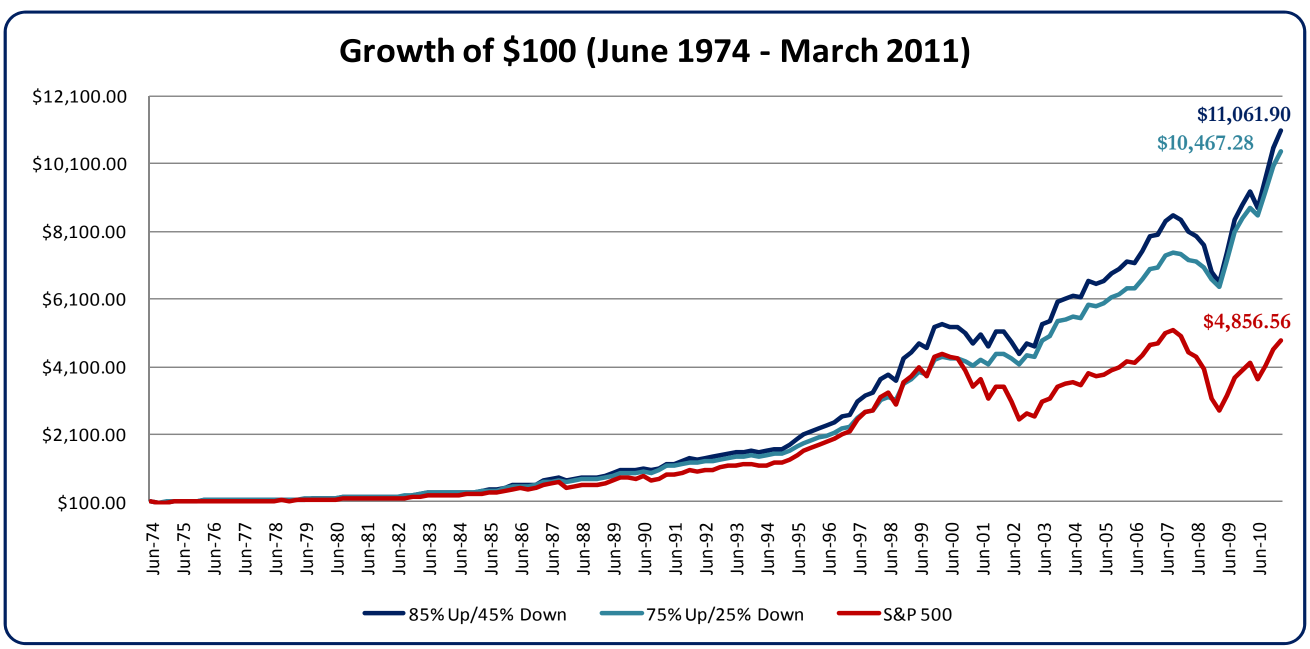


Source: Goldman Sachs Market Monitor

Whether these trends will persist or reverse course is impossible to predict. We agree with one investment manager that stated that investors can no longer fly on autopilot. As he put it, markets are likely to experience more take-offs, landings, and turbulence. Only a trained pilot can expertly handle these challenges. In an environment of uncertainty, the quality of the business model and management team, the company's financial strength, and the security's valuation levels will drive its performance. Markets will likely become more discriminating, and companies with strong or improving fundamentals will be rewarded. Active, bottom-up, research-driven managers, just like airline pilots, have the training, experience, and discipline required to navigate a more turbulent sky. They are also in a much better position to protect investor capital in the event of a market correction.

Past issues of Beacon's Point frequently mention the importance of downside capture and capital preservation. Our disciplined research process is designed to identify investment managers with a strong focus on protecting client wealth and managing portfolio risk. One of the most intuitive and useful measures of a manager's ability to preserve capital and manage risk is the downside capture ratio. Investment literature describes it as a measure of the manager's performance in down markets. A down-market is defined as those periods (typically quarters) in which the market return is less than zero. In essence, it tells you what percentage of the down-market was captured by the manager. For example, if the ratio is 150%, the manager has captured 150% of the down-market and therefore underperformed the market on the downside. Conversely, if the ratio is 50%, the manager has lost only half as much as the market, resulting in significant outperformance.

One might argue that, since markets tend to move up over the very long run, upside capture is more important than downside capture. While we certainly pay attention to the manager's upside capture, we view it in the context of the tradeoff between risk and return, or downside and upside. We believe that in order to outperform over the long run, a manager does not need to capture all of the market's upside, but can achieve outperformance by posting better-than-market results during challenging environments (or have a downside capture of less than 100%). A number of the equity managers that we recommend offer exactly this type of upside/downside profile. For instance, the Large and All Cap Value managers on Beacon Pointe's Focus List tend to capture, on average, 85% of the market's upside and 45% of the market's downside. (These averages are based each manager's since inception returns relative to the S&P 500 Index.) One particular firm that we utilize has captured 75% of the upside and just 25% of the downside of the S&P 500 Index since the strategy's June 1999 inception. We apply these two sample return/risk profiles - 85% up/45% down and 75% up/25% down - to the hypothetical illustration of downside capture provided below.



Source: Zephyr Style Advisor, Beacon Pointe Advisors

Note: The 1974 start date was determined by the availability of index return data in Zephyr Style Advisor.

In the graph, the market is represented by the S&P 500 Index and, by definition, has equal upside and downside capture ratios of 100%. As shown, the original $100 investment in the S&P 500 Index grew to just over $4,850 from 2Q1974 to 1Q2011. Our two hypothetical strategies have produced significantly better results, more than doubling the total return of the S&P 500 Index for that period. (Note: the tables on the following page provide the quarter-by-quarter performance information that was used to create this "Growth of $100" graph.) This simple illustration clearly shows that a focus on down capture is a case of "**much ado about something**". Because market corrections and bear markets tend to destroy so much value in investment portfolios, selecting - and, more importantly, sticking with - a strategy that performs well during downturns gives investors the best opportunity to meet and exceed their objectives over the long run.

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

Quarterly Returns History

June 30, 1974 to March 31, 2011

	S&P 500	85% Up/ 45% Down	75% Up/ 25% Down
Sep-74	-25.15%	-11.32%	-6.29%
Dec-74	9.31%	7.92%	6.99%
Mar-75	22.95%	19.51%	17.21%
Jun-75	15.36%	13.06%	11.52%
Sep-75	-10.95%	-4.93%	-2.74%
Dec-75	8.65%	7.35%	6.49%
Mar-76	14.98%	12.73%	11.23%
Jun-76	2.47%	2.10%	1.85%
Sep-76	1.91%	1.62%	1.43%
Dec-76	3.22%	2.74%	2.42%
Mar-77	-7.45%	-3.35%	-1.86%
Jun-77	3.31%	2.82%	2.48%
Sep-77	-2.79%	-1.26%	-0.70%
Dec-77	-0.11%	-0.05%	-0.03%
Mar-78	-4.94%	-2.22%	-1.23%
Jun-78	8.51%	7.23%	6.38%
Sep-78	8.67%	7.37%	6.50%
Dec-78	-4.93%	-2.22%	-1.23%
Mar-79	7.10%	6.04%	5.33%
Jun-79	2.73%	2.32%	2.04%
Sep-79	7.65%	6.50%	5.74%
Dec-79	0.14%	0.12%	0.11%
Mar-80	-4.12%	-1.85%	-1.03%
Jun-80	13.49%	11.46%	10.12%
Sep-80	11.22%	9.54%	8.41%
Dec-80	9.49%	8.06%	7.12%
Mar-81	1.38%	1.17%	1.03%
Jun-81	-2.30%	-1.03%	-0.57%
Sep-81	-10.23%	-4.60%	-2.56%
Dec-81	6.93%	5.89%	5.20%
Mar-82	-7.31%	-3.29%	-1.83%
Jun-82	-0.56%	-0.25%	-0.14%
Sep-82	11.52%	9.79%	8.64%
Dec-82	18.25%	15.51%	13.69%
Mar-83	10.02%	8.51%	7.51%
Jun-83	11.10%	9.44%	8.33%
Sep-83	-0.13%	-0.06%	-0.03%
Dec-83	0.40%	0.34%	0.30%
Mar-84	-2.40%	-1.08%	-0.60%
Jun-84	-2.57%	-1.16%	-0.64%
Sep-84	9.69%	8.24%	7.27%
Dec-84	1.88%	1.59%	1.41%
Mar-85	9.18%	7.81%	6.89%
Jun-85	7.33%	6.23%	5.50%
Sep-85	-4.10%	-1.84%	-1.02%
Dec-85	17.20%	14.62%	12.90%
Mar-86	14.11%	11.99%	10.58%
Jun-86	5.89%	5.01%	4.42%
Sep-86	-6.98%	-3.14%	-1.74%

	S&P 500	85% Up/ 45% Down	75% Up/ 25% Down
Dec-86	5.57%	4.74%	4.18%
Mar-87	21.35%	18.15%	16.01%
Jun-87	5.02%	4.27%	3.76%
Sep-87	6.60%	5.61%	4.95%
Dec-87	-22.53%	-10.14%	-5.63%
Mar-88	5.69%	4.84%	4.27%
Jun-88	6.66%	5.66%	5.00%
Sep-88	0.34%	0.29%	0.25%
Dec-88	3.09%	2.62%	2.32%
Mar-89	7.09%	6.03%	5.32%
Jun-89	8.83%	7.50%	6.62%
Sep-89	10.71%	9.10%	8.03%
Dec-89	2.06%	1.75%	1.55%
Mar-90	-3.01%	-1.35%	-0.75%
Jun-90	6.29%	5.35%	4.72%
Sep-90	-13.74%	-6.18%	-3.44%
Dec-90	8.96%	7.62%	6.72%
Mar-91	14.53%	12.35%	10.90%
Jun-91	-0.23%	-0.10%	-0.06%
Sep-91	5.35%	4.55%	4.01%
Dec-91	8.38%	7.13%	6.29%
Mar-92	-2.53%	-1.14%	-0.63%
Jun-92	1.90%	1.62%	1.43%
Sep-92	3.15%	2.68%	2.36%
Dec-92	5.03%	4.28%	3.78%
Mar-93	4.37%	3.71%	3.28%
Jun-93	0.49%	0.41%	0.37%
Sep-93	2.58%	2.20%	1.94%
Dec-93	2.32%	1.97%	1.74%
Mar-94	-3.79%	-1.71%	-0.95%
Jun-94	0.42%	0.36%	0.32%
Sep-94	4.89%	4.16%	3.67%
Dec-94	-0.02%	-0.01%	0.00%
Mar-95	9.74%	8.28%	7.30%
Jun-95	9.55%	8.11%	7.16%
Sep-95	7.95%	6.75%	5.96%
Dec-95	6.02%	5.12%	4.52%
Mar-96	5.37%	4.56%	4.03%
Jun-96	4.49%	3.81%	3.37%
Sep-96	3.09%	2.63%	2.32%
Dec-96	8.34%	7.09%	6.25%
Mar-97	2.68%	2.28%	2.01%
Jun-97	17.46%	14.84%	13.09%
Sep-97	7.49%	6.37%	5.62%
Dec-97	2.87%	2.44%	2.15%
Mar-98	13.95%	11.86%	10.46%
Jun-98	3.30%	2.81%	2.48%
Sep-98	-9.95%	-4.48%	-2.49%
Dec-98	21.30%	18.10%	15.97%

	S&P 500	85% Up/ 45% Down	75% Up/ 25% Down
Mar-99	4.98%	4.24%	3.74%
Jun-99	7.05%	5.99%	5.29%
Sep-99	-6.24%	-2.81%	-1.56%
Dec-99	14.88%	12.65%	11.16%
Mar-00	2.29%	1.95%	1.72%
Jun-00	-2.66%	-1.20%	-0.66%
Sep-00	-0.97%	-0.44%	-0.24%
Dec-00	-7.83%	-3.52%	-1.96%
Mar-01	-11.86%	-5.33%	-2.96%
Jun-01	5.85%	4.97%	4.39%
Sep-01	-14.68%	-6.60%	-3.67%
Dec-01	10.69%	9.08%	8.01%
Mar-02	0.27%	0.23%	0.21%
Jun-02	-13.40%	-6.03%	-3.35%
Sep-02	-17.28%	-7.77%	-4.32%
Dec-02	8.44%	7.17%	6.33%
Mar-03	-3.15%	-1.42%	-0.79%
Jun-03	15.39%	13.08%	11.54%
Sep-03	2.65%	2.25%	1.98%
Dec-03	12.18%	10.35%	9.13%
Mar-04	1.69%	1.44%	1.27%
Jun-04	1.72%	1.46%	1.29%
Sep-04	-1.87%	-0.84%	-0.47%
Dec-04	9.23%	7.85%	6.92%
Mar-05	-2.15%	-0.97%	-0.54%
Jun-05	1.37%	1.16%	1.03%
Sep-05	3.60%	3.06%	2.70%
Dec-05	2.09%	1.77%	1.57%
Mar-06	4.21%	3.58%	3.16%
Jun-06	-1.44%	-0.65%	-0.36%
Sep-06	5.67%	4.82%	4.25%
Dec-06	6.70%	5.69%	5.02%
Mar-07	0.64%	0.54%	0.48%
Jun-07	6.28%	5.34%	4.71%
Sep-07	2.03%	1.73%	1.52%
Dec-07	-3.33%	-1.50%	-0.83%
Mar-08	-9.44%	-4.25%	-2.36%
Jun-08	-2.73%	-1.23%	-0.68%
Sep-08	-8.37%	-3.77%	-2.09%
Dec-08	-21.94%	-9.87%	-5.49%
Mar-09	-11.01%	-4.96%	-2.75%
Jun-09	15.93%	13.54%	11.95%
Sep-09	15.61%	13.26%	11.70%
Dec-09	6.04%	5.13%	4.53%
Mar-10	5.39%	4.58%	4.04%
Jun-10	-11.43%	-5.14%	-2.86%
Sep-10	11.29%	9.60%	8.47%
Dec-10	10.76%	9.14%	8.07%
Mar-11	5.92%	5.03%	4.44%

Source: Zephyr Style Advisor, Beacon Pointe Advisors