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BEACON'S POINT: A MANAGER'S PERSPECTIVE ON THE MARKET (ST. JAMES INVESTMENT COMPANY)

AUGUST 9, 2011

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A Manager's Perspective on the Market (St. James Investment Company)

Mr. Robert Mark, Portfolio Manager for the St. James Investment Company, an investment manager we recommend for and utilize in client portfolios, provided the following commentary after the market close on August 8th, 2011. We thought you may find his perspective insightful and interesting.

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

Market Thoughts and Commentary

By St. James Investment Company

The recent S&P downgrade of U.S. debt, coupled with the increasingly problematic sovereign debt situation in Europe, has brought about broad-based equity selling as investors seeks safe-havens such as gold and (ironically) treasury bonds. As we have long argued, the market is hardly efficient, as the problems associated with unsustainable global debt as well as an anemic recovery (at best) have been well noted for some time. However, a little bit of panic can easily cascade, as the greed that was so pervasive only a few months ago has quickly turned to fear.

These conditions will undoubtedly cause many speculators to flee the market, but is a welcome opportunity for long term value investors. During periods of euphoria, it's difficult to find great companies with solid balance sheets trading sufficiently below fair value. However, when the crowd has decided equities are too risky, opportunities abound. As there is a meaningful difference between stock price and value, the question is not "will the stock go down", the idea is "can one invest with a sufficient margin of safety".

It is not necessarily surprising that the hardest hit sector in the market's recent sell-off are financials. Many of the companies employ extraordinary leverage and the opaque nature of the balance sheets ensures nobody really knows what the equity is worth. Almost as problematic are highly leveraged companies, which do well when the capital markets behave agreeably but can find their business models threatened if there is no more access to debt. Suffice to say that the companies which performed well when greed was pervasive ("risk-on") take it on the chin when value matters.

Investing in strong companies with clean balance sheets at attractive prices is a deliberate (and some might say boring) exercise but promises a good night's sleep. The stock of the company might fluctuate with market conditions – as the market is all about human behavior – but the investment is typically sound. In fact, for the long-term investor, not only is the stock cheaper but the business might be enhanced as risk-taking competitors are vanquished. As we look over our portfolio, we see a collection of solid companies producing goods/services that others will buy/consume regardless of the economic cycle. Our portfolio of companies produce these goods and services using cash generated internally from their own operations – they are not dependent on continuous access to the market's goodwill. These portfolio company holdings are augmented by a healthy position of cash and gold.

In summary, we remain in control of our own decisions. We do not need to react to market prices. We have the luxury of picking our points of engagement on our timing. **The key to appreciating the opportunity offered by the market in times of duress is patience.** It is the patient investor, who emphasizes the fundamentals, who restrains themselves from acting adversely to their own long-term benefit.