BEACON POINTE

ADVISORS

BEACON'S POINT: OKTOBERFEST

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CONFIDENTIAL – PROPRIETARY

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Oktoberfest

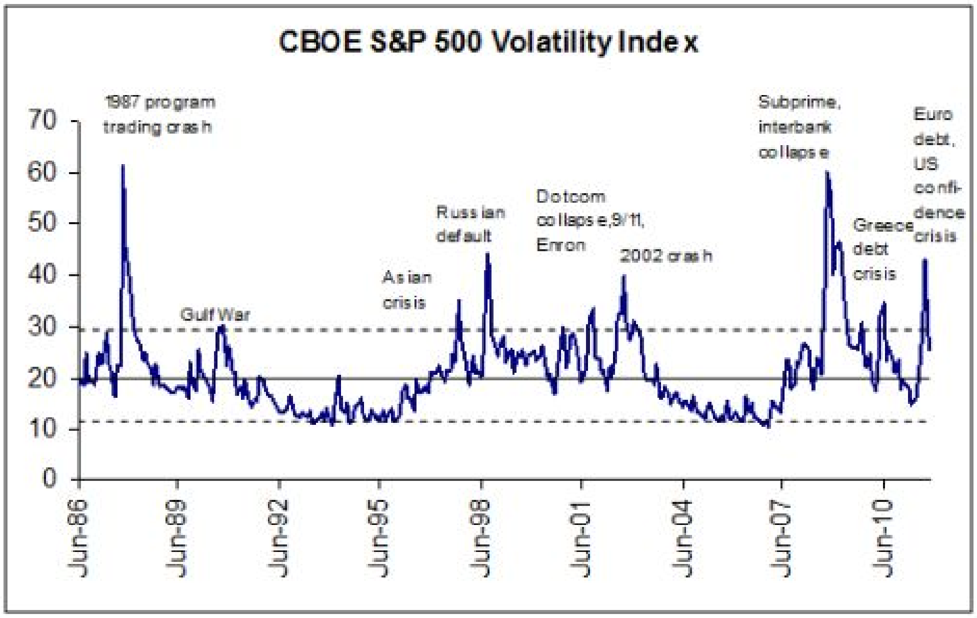
What a difference a month makes! After the gloom and doom of the summer, October brought about a strong and broad-based market rebound. The Dow Jones Industrial Average was up 9%, its best monthly percentage increase since 2002, while the technology-heavy NASDAQ Composite gained 11%. Similarly, the S&P 500 Index advanced almost 11%, its highest monthly return since 1991. Oktoberfest, indeed! Not surprisingly, this sharp advance started to hit the brakes by the end of the month with a sobering three-day decline. Nevertheless, the October bounce-back helped erase much of the damage incurred during 3Q 2011. As of early November, all three major market indices are up slightly for the year-to-date period. What is in store for global financial markets as we look ahead? The following table, courtesy of Bespoke Research, shows where October 2011 ranks in the S&P 500's list of best months ever and provides some perspective on the performance of the index in subsequent months.

S&P 500 Best Months Ever

	S&P 500 Percent Change	
	Month	**Next Month**
Aug 1932	39.14	-3.69
Jul 1932	36.12	39.14
Apr 1933	33.85	23.12
Jun 1938	24.70	6.66
May 1933	23.12	13.17
Oct 1974	16.30	-5.32
Apr 1938	15.06	-5.21
Sep 1939	14.40	0.31
Jun 1931	13.90	-7.42
Jan 1987	13.18	3.69
Jun 1933	13.17	-8.80
Jan 1975	12.28	5.99
Jan 1934	12.04	-3.67
Nov 1928	11.99	0.29
Jan 1976	11.83	-1.14
Mar 1928	11.70	2.44
Aug 1982	11.60	0.76
Aug 1933	11.46	-12.35
Feb 1931	11.37	-7.43
Dec 1991	11.16	-1.99
Oct 1982	11.04	3.61
Jul 1939	10.87	-7.14
Oct 2011	10.77	
Aug 1984	10.63	-0.35
Jun 1929	10.39	5.36
Nov 1933	10.27	0.91
Nov 1980	10.24	-3.39
Nov 1962	10.16	1.35
Average		**1.44**

Source: Bespoke Research

Not surprisingly, this improved market performance was accompanied by an easing of volatility. As shown below and discussed in the last edition of Beacon's Point, the CBOE VIX Index spiked above 40 during August and September as economic doubts and fears became widespread. During October, the so-called "fear gauge" fell back below 30, implying that market sentiment has exited panic territory, although it is still above the long-term historical average of approximately 20.



Investment Postcards from Cape Town

Some of the drivers of the October rally included an oversold technical condition and seasonal strength. More importantly, however, economic and business fundamentals were stable to improving. Of course, the month's media headlines included the now-familiar repertoire of "Greek drama", the Eurozone's back-and-forth, the emerging economies' precarious balance between growth and inflation, and the U.S.'s lack of meaningful progress in fighting unemployment, a stagnant housing market, and escalating fiscal deficits. But incremental news were encouraging. The brilliant Oscar Wilde once said "We are all in the gutter, but some of us are looking at the stars." The stars shone a little more brightly in October, as evidenced by the following headlines:

GDP Grew 2.5 Percent in Third Quarter, With Boost From Consumers

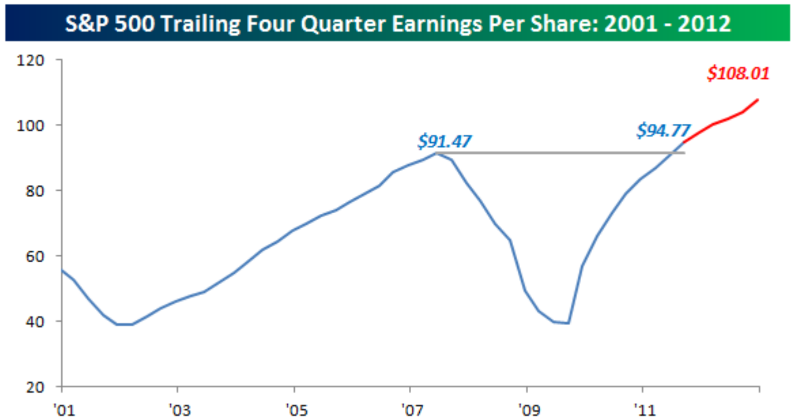
***ABC News** – 10/27/11*

U.S. Consumer Spending Gain of 0.6% Helps Economy Skirt Recesssion Relapse

***Bloomberg** – 10/28/11*

Source: InvesTech Research

Even the jobs market showed signs of life. The U.S. economy added 80,000 jobs last month, as strong private sector hiring helped offset local government job losses. In addition, both the August and September readings were revised upward. Manufacturing and service sector reports indicated slow but positive growth. Meanwhile, corporations continue to report solid results, with 65% of U.S. companies beating expectations on the bottom line (reported earnings vs. analyst forecasts) and 62% beating consensus revenue estimates. Collectively, the companies comprising the S&P 500 Index are earning record profits, as shown in the graph on the following page.



According to S&P, with 88.1% of U.S. companies having reported, Q3 operating earnings are on pace to total $25.42 for the S&P 500. On a four quarter trailing basis, earnings for the S&P 500 are set to total $94.77, which would eclipse the old record of $91.47 set in Q2 2007. If you thought the market was volatile, the swings in earnings have been just as violent. Since the prior record in earnings for the S&P 500 was set just over four years ago, the S&P 500 saw earnings drop by more than 55% in a little over two years. After bottoming out in Q3 2009, earnings have now rebounded by 139% in the course of two years. Based on current forecasts, earnings for the S&P 500 are expected to rise to $108.01 by the end of 2012. If, and this a pretty big if, analyst forecasts are correct, the S&P 500 is currently trading at a relatively meager 11.6 times next year's earnings.

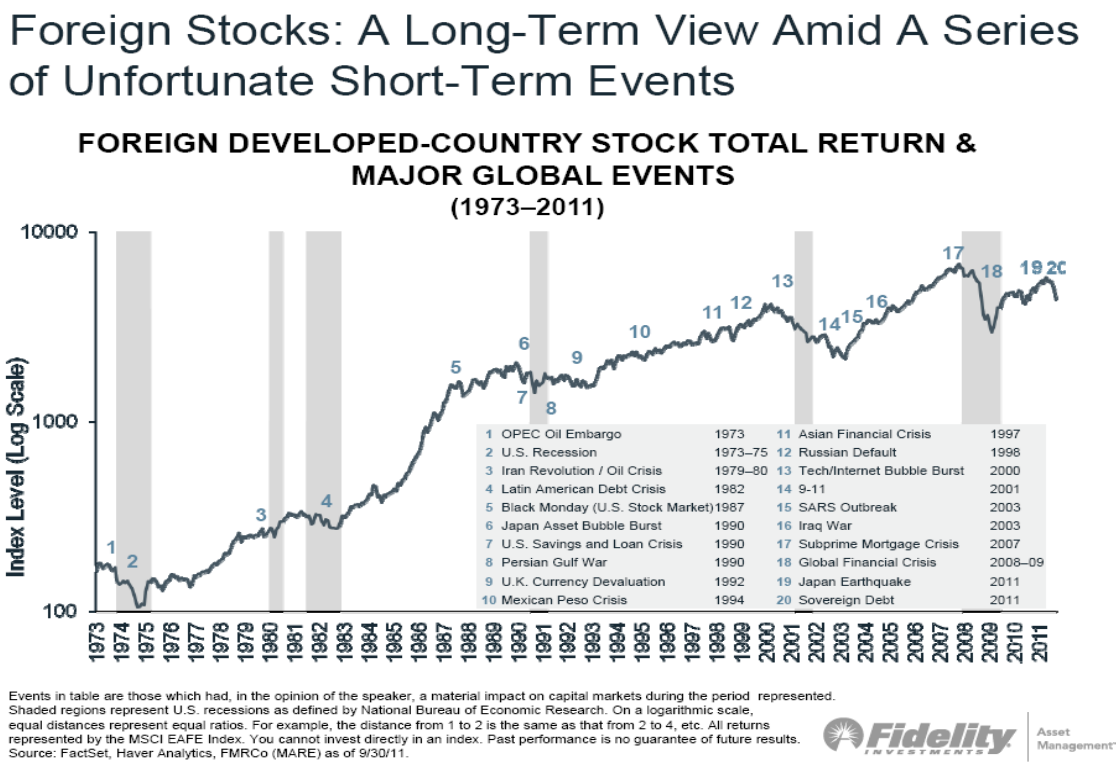
Source: Bespoke Research

Wall Street analysts have a less-than-stellar record of accurately forecasting aggregate profits and, for this reason, we share Bespoke Research's caution regarding the current consensus expectation for 2012 S&P earnings and the forward resulting P/E. There is no doubt, however, that the current environment offers opportunities for active managers that rely on their thorough and independent bottom-up research to build high-conviction portfolios of quality businesses trading at substantial margins of safety. These are the investment managers we recommend to our clients. In our discussions with them, we hear an honest assessment of the macro risks facing both U.S. and global companies, but also an enthusiasm for specific investments that have rarely, if ever, been available at such discounts to fair value. Most of them share Benjamin Graham's philosophy, highlighted recently by the managers of the Longleaf Fund:

> "I think the future of equities will be roughly the same as their past; in particular, common-stock purchases will prove satisfactory when made at appropriate price levels. It may be objected that it is far too cursory and superficial a conclusion; that it fails to take into account the new factors and problems that have entered the economic picture in recent years — especially those of ... the movement towards less consumption and zero growth. Perhaps I should add to my list the widespread public mistrust of Wall Street as a whole, engendered by its well-nigh scandalous behavior during recent years in the areas of ethics, financial practices of all sorts, and plain business sense." — Excerpt from June 1974 speech by Benjamin Graham, printed in *Financial Analyst Journal*, September/October 1974

Source: Longleaf's Third Quarter Letter to Shareholders (dated October 7, 2011)

Although written 37 years ago, the words sound painfully familiar today: zero growth, less consumption, mistrust of Wall Street, scandalous behavior... The 1970s were a challenging time for investors, as have been the past few years. However, as managers Mason Hawkins and Staley Cates pointed out in the same Longleaf Letter to Shareholders referenced above, the fear and frenzy of those years created tremendous opportunities for long-term investors. Might we be in for a repeat? There is, of course, no way to know how markets will behave in the next week, month, or year. They could continue to swing from one extreme ("Wake Me Up When September Ends") to another ("Oktoberfest"); or they could stabilize and resume a more normal routine with smaller daily movements and measured monthly advances or declines. History has shown that over the long run, financial markets can and do generate attractive returns despite multiple headwinds. For example, the following graph by Fidelity Investments highlights non-U.S. equities' performance in the 1973-2011 period in the face of "a series of unfortunate short-term events."



Source: Fidelity Investments

Another of our favorite Oscar Wilde quips is "I am no longer young enough to know everything." Our collective experience has given us the wisdom to know that forecasting is a futile endeavor. Thus, rather than making predictions, we continue to rely on our core investment and philosophical 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 strongly believe that these are the cornerstones of successful investing and that they will serve Beacon Pointe's clients well regardless of the market environment.

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