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BEACON'S POINT: THE THIRD DIMENSION

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The Third Dimension

In the world of investing, a discussion of both potential risk and potential reward is crucial. Often, the available investment options are plotted on two-dimensional graphs (historical or expected return vs. standard deviation); the analysis may be focused on risk-adjusted performance measures such as Sharpe Ratio, Alpha, or Information Ratio; and best/worst case scenarios (generated by a Monte Carlo simulation) are utilized to highlight the potential gain or loss for investors in extreme market environments. These various analytical tools are instrumental in indentifying the investor's risk tolerance, designing a target asset allocation in line with the stated return objectives given the risk constraints, and setting realistic expectations about the investment experience.

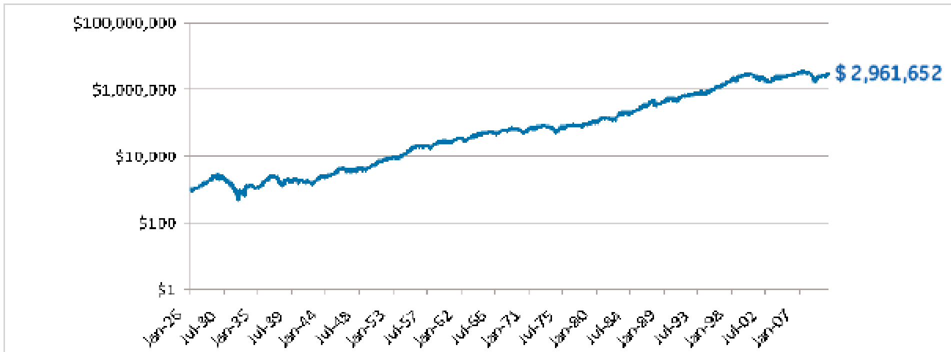
Frequently overlooked is the third dimension of the analysis -- **time**. Beacon Pointe has stressed the importance of a long-term investment horizon in many of our past client letters. We strongly believe that our long-term focus and discipline allow us to stay the course, while others chase performance or swing from one extreme camp (bear) to another (bull). As we have argued in the past, extrapolating a current trend -- be it positive or negative -- into the future is a dangerous way to formulate one's investment strategy. An especially strong month of market performance (like October 2011) offers more noise than real information about the future direction of major indices. Similarly, a period of short-term weakness does not necessarily spell the beginning of another major downturn. Today, there is certainly no shortage of reasons to worry. The ailing Eurozone and a divided Washington, DC continue to test an already frail market sentiment. These are two worthy candidates for addition to the list of possible reasons to stay on the sidelines. The list below and the accompanying graph on the next page, courtesy of GE Asset Management, highlight the importance of a long-term mindset. Despite the constant macroeconomic, political, and natural disaster headwinds, equities have gained 9.6% per year from 1/1/26 to 12/31/10.

85 possible reasons why investors may have avoided the stock market

1926	Joseph Stalin ruled as dictator of USSR
1927	German economy collapsed
1928	"Roaring 20s" pushed stock market to new highs
1929	"Black Tuesday" - stock market crashed
1930	Hawley-Smoot Tariff Act
1931	Unemployment rate soared; U.S. banks collapsed
1932	Dow hit Depression-era low
1933	Hitler named German chancellor - Nazi terror began
1934	Depression continued
1935	Labor union strikes
1936	Spanish Civil War began
1937	Recession
1938	Hitler annexed Austria
1939	World War II began
1940	Fall of France
1941	Japanese attacked Pearl Harbor
1942	Price controls initiated - shortage of consumer goods
1943	Detroit race riots
1944	D-Day - Allied forces invaded Normandy
1945	Post-war recession predicted
1946	Cold War began
1947	"Red Scare" revisited
1948	Berlin blockade
1949	USSR detonated atomic bomb
1950	Korean War began
1951	Excess income and profits tax
1952	Steel labor dispute - U.S. seized mills
1953	USSR detonated hydrogen bomb
1954	Stock market reached new highs
1955	President Eisenhower suffered heart attack
1956	Suez Canal crisis
1957	USSR launched Sputnik satellite
1958	Recession
1959	Castro became dictator of Cuba
1960	USSR shot down U-2 spy plane
1961	Berlin Wall built
1962	Cuban missile crisis
1963	President Kennedy assassination
1964	Gulf of Tonkin resolution
1965	Civil rights demonstrations
1966	Vietnam War escalated
1967	Six-Day War in Middle East
1968	Martin Luther King Jr. assassination
1969	Money tightened - stock market declined
1970	U.S. invaded Cambodia
1971	Wage-price freeze
1972	Watergate scandal began
1973	Arab oil embargo - oil prices tripled
1974	President Nixon resigned from office
1975	Fall of Saigon
1976	Economy still struggled
1977	Stock market slumped
1978	Interest rates rose
1979	Iran hostage crisis - oil prices skyrocketed
1980	Hunt brothers silver market crisis
1981	Interest rates remained elevated
1982	Worst recession in 40 years
1983	U.S. invaded Grenada
1984	AIDS virus identified
1985	Economic growth slowed
1986	U.S. bombed Libya; Iran-Contra affair broke
1987	"Black Monday" - stock market crashed
1988	U.S. Savings & Loan crisis peaked
1989	U.S. invaded Panama
1990	Persian Gulf War
1991	Global recession
1992	ERM U.K. currency crisis
1993	Great Midwest Floods in U.S.
1994	Mexican Peso collapsed
1995	Oklahoma City bombing
1996	Barracks hit in Saudi Arabia
1997	Asian financial crisis
1998	Russian default/LTCM crisis
1999	Y2K fears; Dow reached 11,000 for first time
2000	Money tightened - Dot-com bubble burst
2001	World Trade Center/Pentagon terrorist attacks
2002	Corporate accounting issues
2003	War in Iraq
2004	Tsunami strikes Indonesia
2005	Hurricane Katrina
2006	North Korea conducts first nuclear test
2007	Sub-prime mortgage crisis
2008	Global financial crisis
2009	Worst recession in the last half-century
2010	Slow recovery/high unemployment

Source: historychannel.com©

Hypothetical Growth of a $1,000 Investment[2]



Source: GE Asset Management

Meanwhile, the S&P 500® Index had an annualized total return of 9.62% for the period 1/1/26 - 12/31/10).[1] Hypothetically, if you had invested a lump sum of $1,000 in common stocks at the beginning of 1926, as represented by the S&P 500® Index, your investment would have been worth $2,961,652 on 12/31/10.[2]

[1] The S&P 500® Index is an unmanaged, market capitalization-weighted index of 500 widely held U.S. stocks recognized by investors to be representative of the stock market in general. It is provided to represent the investment environment existing for the time period shown. The returns shown do not reflect the actual cost of investing in the instruments that comprise it. You cannot invest in an index. Standard & Poor's and S&P 500 are trademarks of the McGraw-Hill Companies, Inc.

[2] This is a hypothetical example used for illustrative purposes only. The lump sum investment in common stocks would have reflected the same stocks/weightings as represented in the S&P 500 Index. Additional assumptions include reinvestment of dividends and no withdrawals. The example does not represent or project the actual performance of any security, GE mutual fund or other investment product. The hypothetical figures do not reflect the impact of any fees or taxes applicable to an actual investment.

Source: GE Asset Management

Of course, time is a matter of perspective. The appropriate time horizon varies among clients and may be quite different for institutional versus private clients. These differences should be addressed at the asset allocation stage in conjunction with a thorough evaluation of each client's circumstances, investment objectives, spending needs, and risk tolerance. Finally, the selection of investment managers should also take into account the specific goals and needs of each client. While Beacon Pointe's recommended managers are typically long-term investors, they are active managers with strict buy and sell disciplines. As such, they adjust client portfolios to protect against risk or take advantage of investment opportunities presented by the market.

The uncertainty generated by the ongoing sovereign debt crisis in Europe and policymakers' deadlock in the U.S. is likely to persist for a while, but it should not drive long-term investors out of the market. We believe it is prudent to stay focused on the third dimension -- time -- and to remain committed to one's long-term investment strategy with an emphasis on diversification, capital preservation, and careful manager research and selection.

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