BEACON'S POINT: SUMMERTIME BLUES

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CONFIDENTIAL – PROPRIETARY

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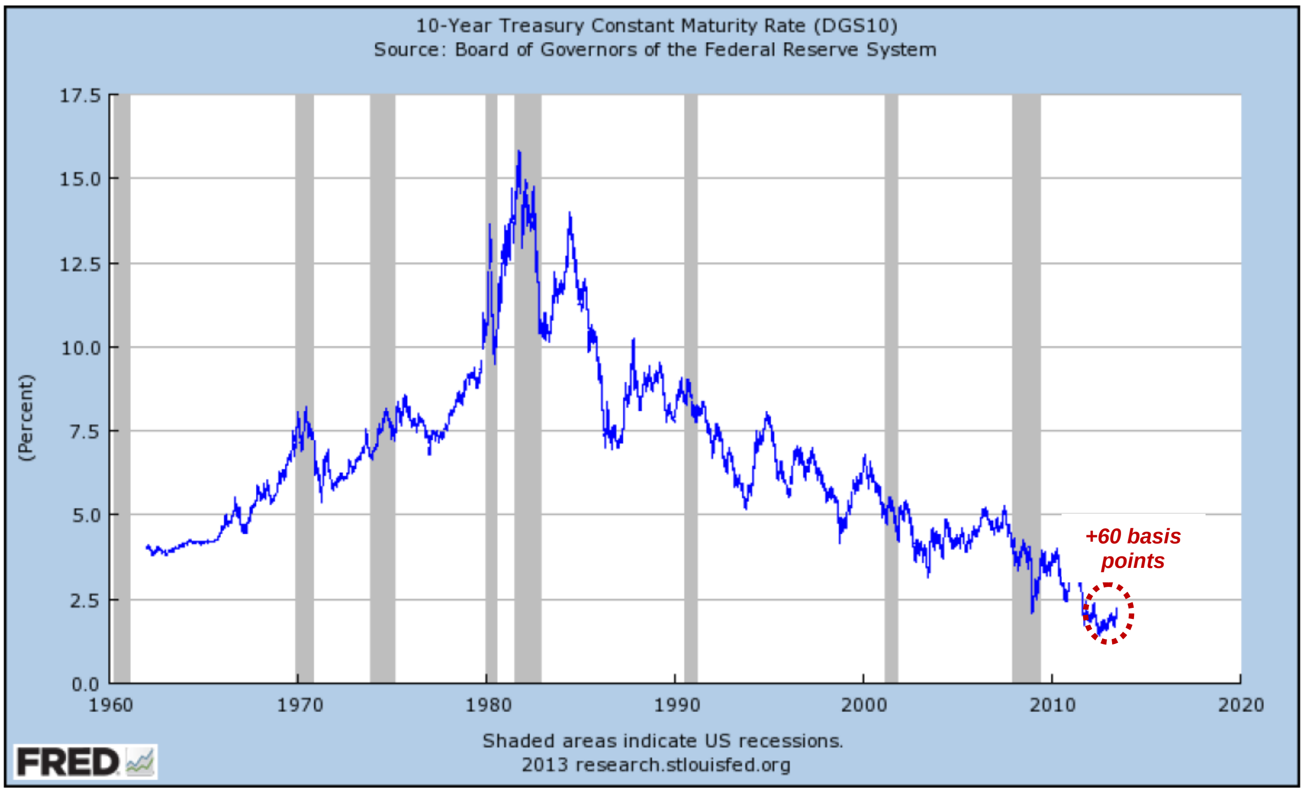
Summertime Blues

Once again it is the time of year for volatility spikes and financial market jitters. The CBOE VIX Index, otherwise known as the "fear gauge", increased by 50% from a low of 12 on April 15th to 18.5 on June 12th. As stated in Beacon Pointe's last commentary (dated 4/12/13), we believed the low levels of volatility in April were unsustainable and symptomatic of a certain level of complacency among investors. We are, therefore, not surprised by the rebound in the VIX, especially given the seasonal patterns of market returns in calendar years 2010, 2011, and 2012. The "summertime blues" may have struck again in 2013, pushing bond yields sharply higher in May and equity prices off their recent record highs.

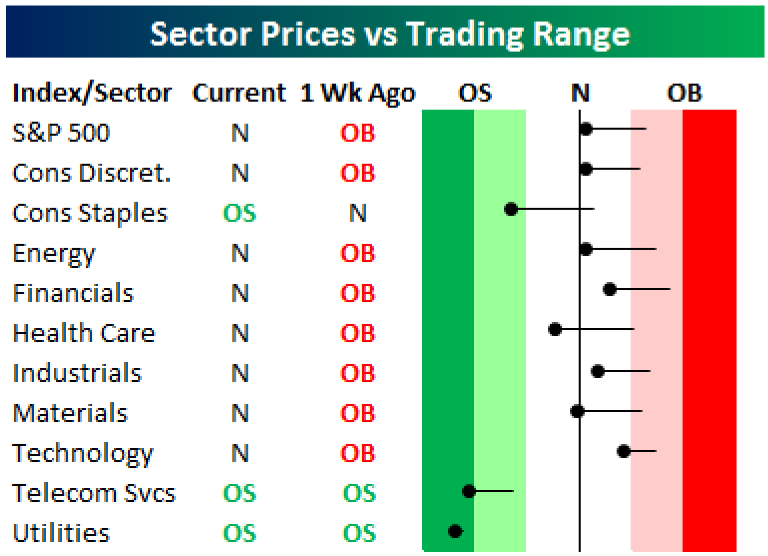


Source: St Louis Fed, Board of Governors of the Federal Reserve System

As shown in the graph above, the yield on the 10-Year Treasury ticked up in recent months, from 1.63% on May 2nd to 2.23% on June 12th. The 60 basis point jump has done little to dent the 30-year secular decline in interest rates, but caused some havoc for fixed income asset managers and individual investors, who saw their bond portfolios lose value in the last six weeks. Non U-S. developed and emerging market debt fared worse than the U.S. fixed income market, but returns for that period were negative across the board. This fueled arguments over the likelihood of a bear market in bonds, as well as claims of a "great rotation" of fund flows out of fixed income and into equities. As far as we are concerned, the jury is still out on both issues and further developments over the coming summer months should be closely monitored and carefully evaluated.

Accompanying the recent weakness in fixed income markets were softer results in equity investments. The S&P 500 Index closed at 1,612 on June 12th, 3.5 % off the all time record close of

1,669 set on May 21st. Leading up to this, stocks were starting to look overextended and the re-pricing of the last three weeks was necessary in order to bring valuations back to more attractive levels. From a short-term trade range perspective, most economic sectors within the S&P 500 Index have moved from an overbought condition to the neutral mid-point, with a handful -- the more defensive sectors -- landing in the oversold range.

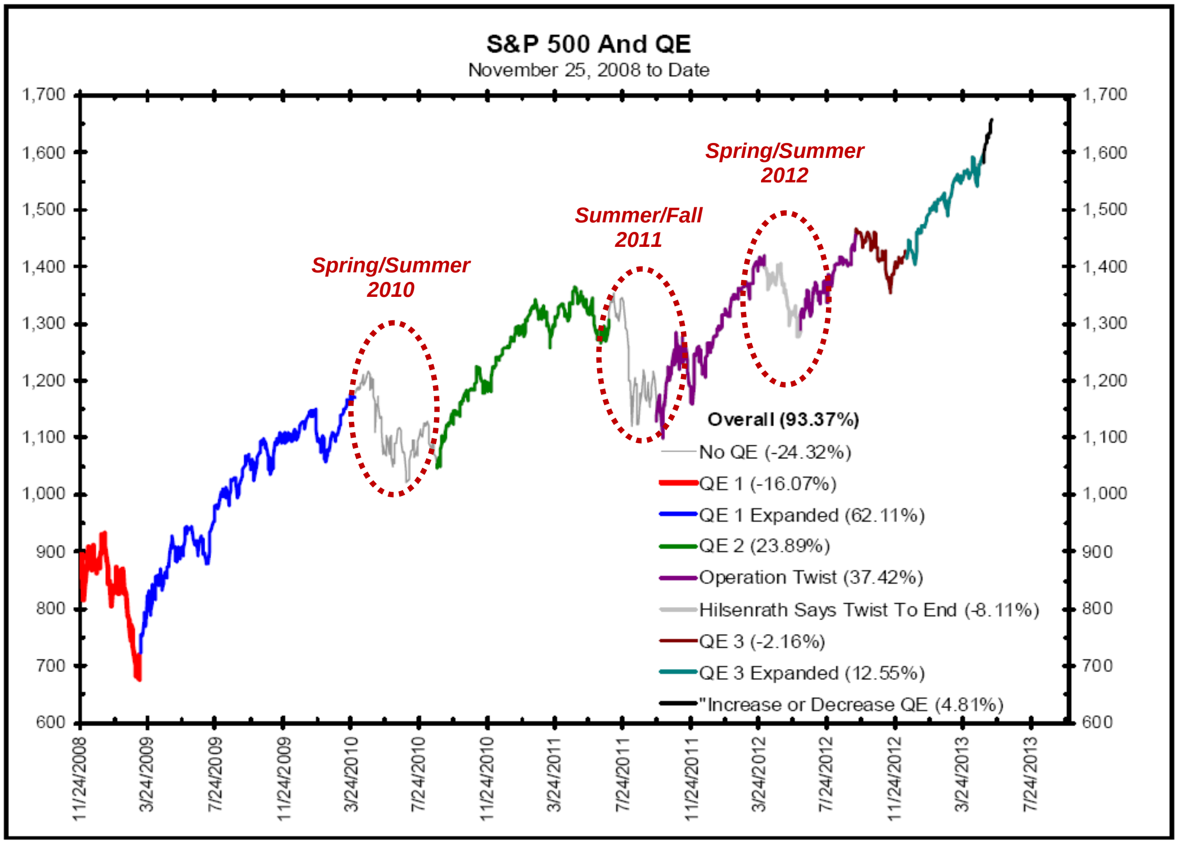


Index/Sector	Current	1 Wk Ago
S&P 500	N	OB
Cons Discret.	N	OB
Cons Staples	OS	N
Energy	N	OB
Financials	N	OB
Health Care	N	OB
Industrials	N	OB
Materials	N	OB
Technology	N	OB
Telecom Svcs	OS	OS
Utilities	OS	OS

Source: Bespoke Investment Research

Based on data from the past 80 years, InvesTech Research estimates that a 10% correction comes around every 25 months, on average, while 5% corrections are more frequent, occurring every seven months, on average. However, the research provider cautions that predicting the frequency of such corrections based on averages is fraught with errors. For instance, equities ran for 83 months (almost 7 years) during the 1990s bull market without a single 10% correction. On the other hand, the current market advance (March 2009 to present) has already experienced ten corrections of 5% or more, two of which exceeded 10%. The last one was a 7.7% correction between September and November 2012. At present, it is unclear whether the market is in the process consolidation before advancing to new highs or in the early stages of a meaningful correction. As always, we recommend a disciplined and prudent approach to portfolio construction, periodic rebalancing, and investment manager selection.

A case of the "summertime blues" is not unusual and, in fact, has been the norm rather than the exception in the last several years. The insightful chart on the following page, courtesy of Bianco Research, highlights the soft patches experienced mid-way through 2010, 2011, and 2012. While each of these episodes may have been driven by unique factors, Quantitative Easing ("QE") -- or the lack thereof -- likely played an important role. If the apparent correlation between QE activity and equity market trends holds true, the outcome of this year's summer season probably rides on the words and actions of the Federal Reserve and other central banks around the world. However, what matters most for investors over the intermediate and long term are macroeconomic and company fundamentals as well as asset valuations. These are the factors that Beacon Pointe, and the investment managers we recommend, continue to focus on.



Source: Bianco Research

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