

# BEACON POINTE

## BEACON'S POINT: TRUE NORTH

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### True North

A firm's investment philosophy establishes the core principles that guide its business practices and defines its value proposition to clients. It does not preclude change – after all, in today's dynamic market environment, a firm must evolve to survive. “True north” is both a destination and an aspiration. It will almost certainly present challenges and require adjustments along the way. But the goal is constant and clear.

Beacon Pointe now has a 15-year history. Since 2002 we have grown as an organization and enhanced our processes but have never lost sight of the reason for our being. Our mission is to provide value to our institutional and private clients to enhance their financial future. A key ingredient of our success is offering prudent investment advice. As a firm, we believe we can identify best-in-class investment strategies that apply fundamental security research and bottom-up portfolio construction to generate attractive risk-adjusted returns. We acknowledge that other investment approaches may fulfill different – and complementary – roles in client portfolios and utilize them where appropriate. However, from a risk management perspective, we maintain that the potential long-term benefits of fundamental, bottom-up investment management are unmatched.

In the years from our inception to the present, we did not, nor will we ever, pivot away from our unwavering focus on our goals and commitment to our philosophy. Firms more concerned with gathering assets may be willing to redefine their “true north”, to adopt what is working in the marketplace at present, or to redirect the business in a way that allows for maximum scalability. Undoubtedly, some of them will achieve success in the form of growth rates and market shares. Far from discounting the value of such measures of success, we argue that they should be a natural outcome of delivering on our proposition to clients. Not the other way around.

The 24-hour news cycle would lead one to believe that the asset management industry is in turmoil. Some declare “the death of active management”, others predict the wholesale displacement of humans by machines. The reality is that, while the industry is not immune to disruptive innovation, it is premature and misguided to conclude that indexing is the single right way to invest or that investment advice has permanently become the exclusive domain of artificial intelligence.

A case in point is the recent resurgence in the popularity of quantitative investment strategies. Such strategies are not new arrivals on the investment scene; rather, they have been around for a long time. And they are subject to the same relentless cycle of being in and out of favor as other investment approaches. The “quants”, as they are affectionately called, appear especially compelling during steadily marching bull markets, when persistent trends can be exploited by algorithms and when complicated formulas work without fail. But come a market correction – or worse yet, a severe bear market – the models tend to break down and, as a result, investors in these strategies may experience destructive loss of capital.

It is the risk side of the equation that allows fundamental, bottom up managers to add the greatest value for their clients over time. Downside protection is more than a catchy phrase; it

may prove to be the difference between a comfortable retirement and a postponed one. It often determines the ability of charitable organizations to support their missions and programs without interruption. And it is made possible by thoughtful, diligent, independent research around company fundamentals, security valuations, and portfolio level risk controls. Although computers are exceptionally smart, they are unable to replicate the ability of the human brain to consider and weigh the myriad of subjective and objective factors driving the collective behavior of corporations and individuals. Markets are unpredictable and no investment fad or smart machine can change that.

Beacon Pointe's compass continues to steer us toward our "true north". We sincerely appreciate the trust you have placed in us and will keep working tirelessly to help you achieve your personal and organizational goals.

Please feel free to call Beacon Pointe should you need additional information or have any questions.