OCTOBER 2017
BEACON'S POINT: PERSEVERANCE

The current bull run, nearing 8.5 years in duration and soaring 371%, is the second longest and third largest since the end of World War 2. Bull markets as long and as strong as the current one can be enticing for investors, however, since the market does not always go up, we must not forget that what we keep is just as important as what we make.

Before the current S&P bull run, there was a decline. A big one. From October 9, 2007 to March 9, 2009, the S&P 500 experienced a 45.8% drop. Recouping a loss of this magnitude required a return of 85%. An S&P investor that was able to withstand this near 50% decline in portfolio value had to wait five long years to get back to even.

We don't want our clients to wait that long.

Here at Beacon Pointe our general investment philosophy and research process seeks to identify money managers who emphasize downside protection and the preservation of capital. They construct portfolios of carefully selected high quality investments based on their independent research, thorough evaluation of fundamentals, and a disciplined valuation framework. These strategies tend to perform much better than the broad market indexes during bear markets such as the most recent in 2007-2009. Most importantly, they also tend to compound wealth better than the market.

Let's examine the performance of a few of those managers over a full market cycle.

Table 1 below shows metrics for three managers and for the S&P 500. Manager A is the most conservative of the three managers followed by Manager B and Manager C.

	Max Drawdown	Max Drawdown Begin Date	Max Drawdown End Date	Max Drawdown Recovery Date
Manager A	-17.2%	Jan 2008	Mar 2009	Sep 2009
Manager B	-32.0%	Jul 2007	Mar 2009	Mar 2010
Manager C	-42.3%	Jan 2008	Mar 2009	Mar 2011
S&P 500	-45.8%	Oct 2007	Mar 2009	Mar 2012

Table 1; Source: Zephyr Style Advisor

A few things stand out in the data. Most obvious is that none of the listed managers lost as much value as the S&P 500. In fact, Manager A – the most conservative – lost considerably less. Where the S&P needed a gain of 85% to break even, Manager A needed a much smaller gain of 21% to break even. While it did experience a loss, it did not experience a loss as significant or for as long as the broader market. Let's look further though to see if the S&P caught up.

Chart 1 below shows the growth of $100 from June 2007 through June 2017 – a ten-year period that includes both the market correction and the historic bull run.

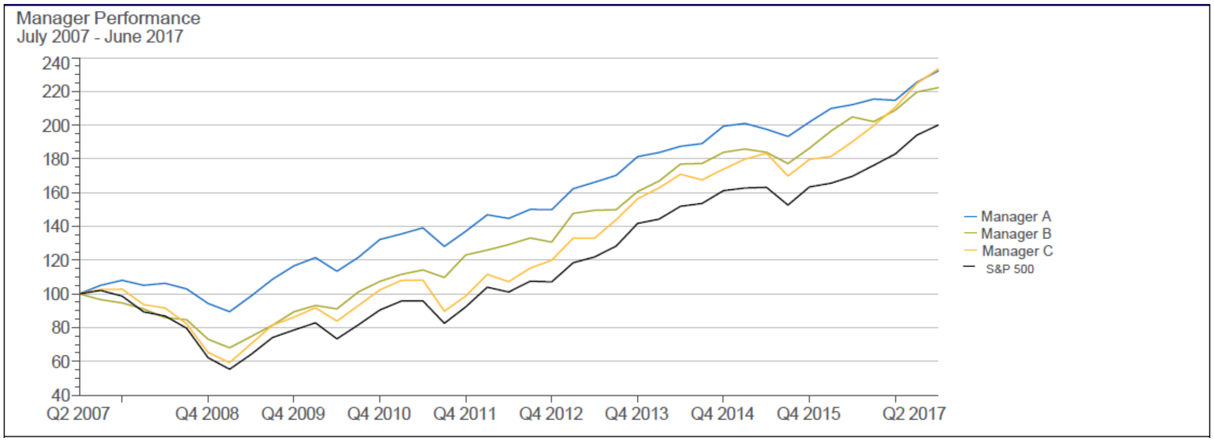

Chart 1; Source: Zephyr Style Advisor

All three of the illustrated managers – and particularly the more conservative - have remained ahead of the market.

The annualized return for the three managers and for the S&P 500 are shown in Table 2:

Could the bull market continue for an extended period and the market eventually "catch-up" to these risk conscious managers? Of course it could. But, investing after all, isn't a race. It is a means to achieve specific financial objectives.

	Annualized Return (06/2007 - 06/2017)
Manager A	8.79%
Manager B	8.32%
Manager C	8.84%
S&P 500	7.18%

Table 2; Source: Zephyr Style Advisor

Beacon Pointe is steadfast in our conviction that a strategic approach, proper diversification, diligent manager selection, and a long-term investment horizon afford our clients the best opportunities to achieve those objectives with the minimal amount of risk possible.

Efficient wealth accumulation can occur without fully participating in bull-market rallies. History tells us that what thoughtful investing appears to lack in bull markets it more than makes up for in weak markets. We believe thoughtful investing really doesn't miss out, it perseveres.

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