

## **Firm Brochure**

(Part 2A of Form ADV)

**BEACON FINANCIAL ADVISORS, LTD. ("BEACON")**

**1800 ST. JAMES PLACE, SUITE 101**

**HOUSTON, TEXAS 77056**

**PHONE 713.622.9981**

**FAX 713.622.5814**

Email [beacon@bfaltd.com](mailto:beacon@bfaltd.com)



This brochure provides information about the qualifications and business practices of BEACON. If you have any questions about the contents of this brochure, please contact us at:

☎ Phone 713.622.9981

✉ Email [beacon@bfaltd.com](mailto:beacon@bfaltd.com).

The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission, or by any state securities authority.

Additional information about BEACON is available on the SEC's website at <http://www.adviserinfo.sec.gov>.

**MARCH 2012**

## Material Changes

---

Here we describe any material changes, if applicable, since the last annual update of our Firm Brochure.

---

### Annual Update

The Material Changes section of this brochure will be updated annually when material changes occur since the previous release of the Firm Brochure.

---

### Material Changes since the Last Update

The last annual update of our Firm Brochure was March 2011. In this March 2012 annual update to our Firm Brochure the material changes are:

- **Advisory Business, Principal Owners -**
    - 2011 - BEACON is Texas Limited Liability Company with "members". Marcel J. Hebert is a 99% member. Milissa B. Hebert is a 1% member. Joshua J. Hebert is accruing ownership and is expected to be a full member at the start of 2012.
    - 2012 - BEACON is Texas Limited Liability Company with "members". Marcel J. Hebert is a 94% member. Milissa B. Hebert is a 1% member. Joshua J. Hebert is a 5% member.
  - **Brochure Supplement, Advisors -**
    - 2011 - Joshua J. Hebert successfully became a Certified Financial Planner (CFP®) licensee in 2011.
- 

### Full Brochure Available

Whenever you would like to receive a complete copy of our Firm Brochure free of charge, please contact us at:

- Phone 713.622.9981
  - Email [beacon@bfaltd.com](mailto:beacon@bfaltd.com).
  - Website <http://www.bfaltd.com>, (click on DISCLOSURE then ADV).
- 

### Writers and Readers

*Writers* - "we", "us", and "our" refer to BEACON

*Readers* - "you" and "your" refer to our Clients and prospective clients

Charts, Graphics, Tables, and Text Boxes, etc. - dispersed throughout our BROCHURE are various visual aids we hope will assist your understanding of our services and investment strategies. These visual aids are not required by government rules to be in our BROCHURE.

# Table of Contents

<b>Material Changes .....</b>	<b>i</b>
Annual Update .....	i
Material Changes since the Last Update .....	i
Full Brochure Available .....	i
Writers and Readers .....	i
<b>Advisory Business .....</b>	<b>1</b>
Firm Description.....	1
Principal Owners .....	2
Types of Advisory Services .....	2
Tailored Relationships.....	3
Types of Agreements .....	3
Financial Planning Agreement .....	3
Investment Management Agreement .....	4
Asset Management .....	6
Termination of Agreement .....	6
<b>Fees and Compensation.....</b>	<b>7</b>
Description .....	7
Fee Billing .....	7
Other Fees.....	8
Expense Ratios .....	8
Graphical Illustration of Fees and Compensation .....	8
<b>Performance-Based Fees .....</b>	<b>9</b>
Why we do not use Performance-Based Fees.....	9
<b>Types of Clients .....</b>	<b>9</b>
Description .....	9
Account Minimums .....	9
Attributes of Types of Clients We Serve .....	10
<b>Methods of Analysis, Investment Strategies and Risk of Loss .....</b>	<b>10</b>
Methods of Analysis.....	10

Investment Strategies .....	11
Risk of Loss .....	13
<b>Disciplinary Information .....</b>	<b>21</b>
Legal and Disciplinary .....	21
<b>Other Financial Industry Activities and Affiliations .....</b>	<b>21</b>
Financial Industry Activities .....	21
Affiliations .....	21
<b>Code of Ethics, Participation or Interest in Client Transactions and Personal Trading .....</b>	<b>21</b>
Code of Ethics .....	22
Participation or Interest in Client Transactions .....	22
Personal Trading .....	22
<b>Brokerage Practices .....</b>	<b>23</b>
Selecting Brokerage Firms .....	23
Best Execution.....	26
Soft Dollars.....	27
Order Aggregation .....	27
<b>Review of Accounts .....</b>	<b>27</b>
Periodic Reviews .....	27
Review Triggers.....	27
Regular Reports.....	27
<b>Client Referrals and Other Compensation.....</b>	<b>29</b>
Incoming Referrals .....	29
Referrals Out .....	29
Other Compensation.....	29
<b>Custody .....</b>	<b>29</b>
Account Statements.....	29
Performance Reports.....	30
Net Worth Statements.....	30
<b>Investment Discretion .....</b>	<b>30</b>
Discretionary Authority for Trading.....	30

Limited Power of Attorney.....	31
<b>Voting Client Securities.....</b>	<b>31</b>
Proxy Votes .....	31
<b>Financial Information .....</b>	<b>32</b>
Financial Condition .....	32

Part 2B of Form ADV - known as the Brochure SUPPLEMENT, Part 2B is included with Part 2A (the BROCHURE) when delivered to clients and prospective clients. Government rules do not require the SUPPLEMENT (2B) be filed online with the BROCHURE (2A).

<b>Brochure Supplement (Part 2B of Form ADV) .....</b>	<b>33</b>
Education and Business Standards .....	33
Professional Certifications .....	33
MARCEL J. HEBERT, CERTIFICATIONS.....	35
JOSHUA J. HEBERT, CERTIFICATIONS .....	36

## Advisory Business

---

Here we describe our firm, our owners, the two principal services we offer to provide, the agreements that govern those services, and our fee-only method of compensation.

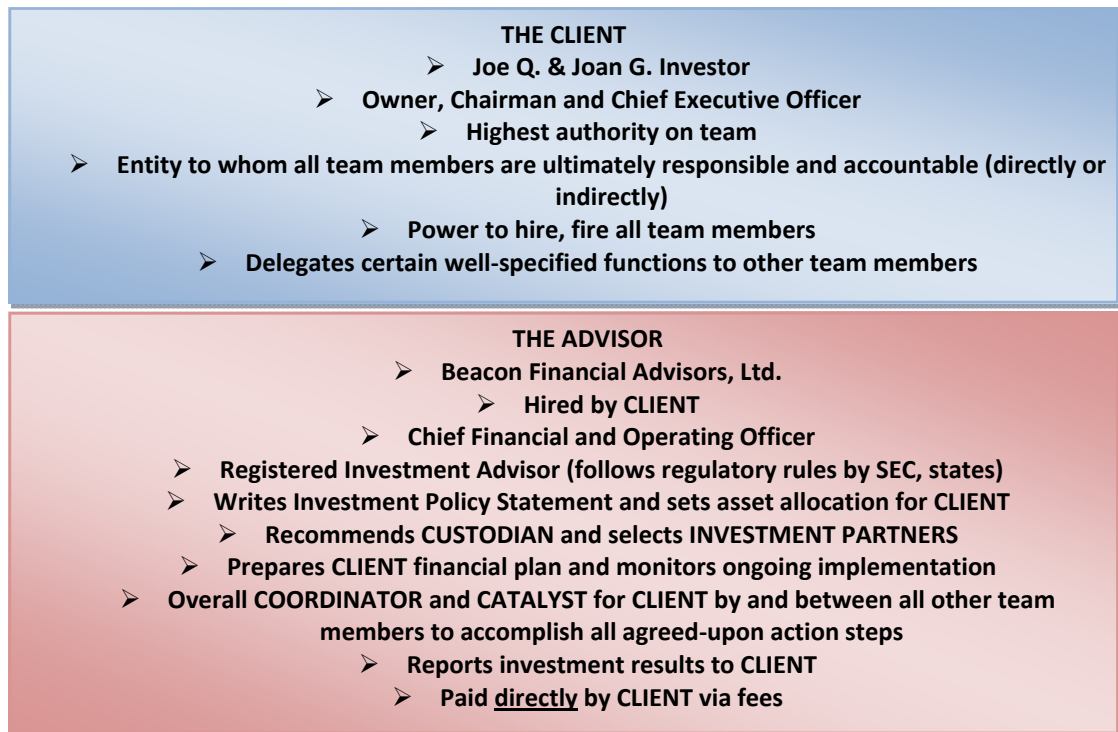
---

### Firm Description

Beacon Financial Advisors, Ltd., ("BEACON") was founded in 1993. Our founding member, Marcel J. Hebert, has over thirty (30) years experience in financial services.

BEACON is strictly a fee-only financial planning and investment management firm. BEACON does not sell annuities, insurance, stocks, bonds, mutual funds, limited partnerships, or other commissioned products. BEACON is not affiliated with entities that sell financial products or securities. No commissions in any form are accepted. No finder's fees are accepted or solicited.

Other professionals (e.g., lawyers, accountants, insurance agents, etc.) are engaged directly by you on an as-needed basis. Conflicts of interest will be disclosed to you in the unlikely event they should occur. Our client service-brief Beacon's Approach To Client Service: TEAMWORK...Assigning The Team Members is an easy-to-follow chart that describes the role we play as a key member of your financial "team" and the role of other team members (accountant, attorney, etc.). Below are the roles for **you, the client**, and **BEACON, the advisor** (ask us for a complete copy):



For prospective clients, the initial meeting with BEACON is free of charge (complimentary) and is an exploratory interview to determine if financial planning and/or investment management may be beneficial to you. The meeting generally lasts 1-2 hours by one of three methods:

- ✚ In Beacon's Houston office (or your home or office if outside Houston).
- ✚ Via telephone.
- ✚ Via online computer screen (e.g. Go-To-Meeting).

---

### Principal Owners

BEACON is Texas Limited Liability Company with "members". Marcel J. Hebert is a 94% member. Milissa B. Hebert is a 1% member. Joshua J. Hebert is a 5% member.

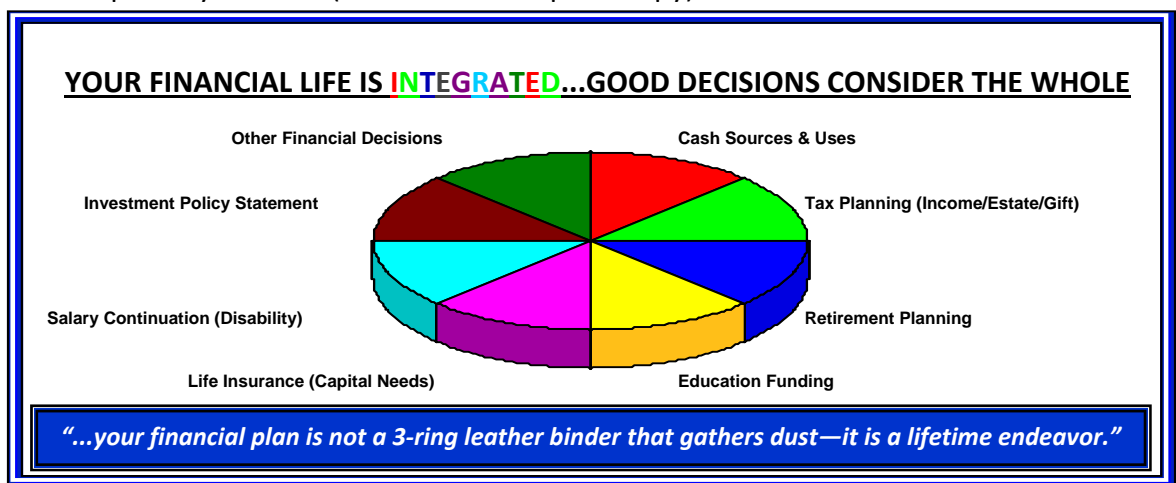
---

### Types of Advisory Services

BEACON provides two principal advisory services as described below. Our services are generally provided to individuals and families, and their related pension and profit sharing plans, 401k plans, trusts, charitable entities, and estates.

- ✚ Financial Planning - identification of your financial assets and liabilities, cash flow management, tax planning, insurance review, education funding, retirement planning, and estate planning. *We call this the quantitative part of your investment policy.*
- ✚ Investment Management - determination of your investment OBJECTIVES and CONSTRAINTS, identification of your risk profile, and the implementation and management of an investment plan we jointly agree is appropriate for you. *We call this the qualitative part of your investment policy.*

Our client service-brief Your INTEGRATED Financial Life: BEACON'S Approach includes an easy-to-follow chart shown below that depicts the content areas of our two primary services (ask us for a complete copy):



An important consideration for you is BEACON provides investment management services to all our clients. We provide financial planning services to some of our clients that have specifically engaged us for that service. *We do NOT provide financial planning services apart from investment management services.*

*Another important consideration for you is BEACON'S investment research and advice covers exclusively regulated investment companies, commonly known as mutual funds.* We discuss this more fully later in the **Investment Strategies** sub-section of **Methods of Analysis, Investment Strategies and Risk of Loss**.

As of 12/31/11, BEACON had approximately \$159,436,361 in assets under management. Approximately \$155,245,241 is managed on a discretionary basis, and \$4,191,120 is handled on a non-discretionary basis. Discretion means you have given us the authority to place buy and sell orders in your accounts, and non-discretion means only you have the authority to place orders. BEACON segregates and includes both types in our portfolio performance reporting to you.

---

### **Tailored Relationships**

Your unique goals and objectives are documented in our client relationship management and portfolio management systems. In developing your investment policy, you may impose constraints (restrictions) on investing in certain broad asset classes. *We call these client mandates.*

---



### **Types of Agreements**

The following agreements define the two principal advisory services described previously in **Types of Advisory Services**.

---

### **Financial Planning Agreement**

A financial plan is designed to help you with all aspects of financial planning coupled with ongoing investment management. Our Financial Planning Agreement considers two phases:

-  Compilation and Data Confirmation - the initial phase of collecting your financial information, compiling your present financial situation, and confirming accuracy and completeness with you, etc.
-  Ongoing Plan Implementation - this second (and ongoing) phase takes the form of client meetings to review our recommendations and those of your other advisors (as applicable). BEACON prepares a Meeting Itinerary prior to the meetings, and afterwards we prepare a meeting follow-up memo detailing the major points and action items.

The Meeting Itinerary and meeting follow-up memo may include, but is not limited to: a net worth statement; a cash flow statement; a review of investment accounts, including reviewing asset allocation and providing rebalancing recommendations; strategic income tax planning; a review of retirement accounts and plans including



recommendations; a review of insurance policies and recommendations for changes, if necessary; one or more retirement scenarios; estate planning review and recommendations; and education planning with funding recommendations.

In addition to the two phases discussed above, we offer two types of financial planning engagements (if you have also engaged us for investment management and if financial planning is appropriate for you):

- ✚ Comprehensive - covers all the major financial planning subject areas. The fee for comprehensive depends on the facts learned at the start of the engagement. The minimum fee is \$3,000 (*or the fee range is \$3,000 to \$15,000+*) and is negotiable. Since financial planning is a discovery process, situations may occur that you are unaware of certain financial exposures or predicaments. In the event that your situation is substantially different than disclosed at the start, a revised fee will be provided for mutual agreement. You must approve the change of scope in advance of the additional work being performed when a fee increase is necessary.
- ✚ Focus or Hourly - cover specific financial planning topic area(s). The fee for focused/hourly is based on BEACON'S hourly billing rates discussed with you before any work is performed.

In the past most of BEACON'S revenue has been from investment management. For most clients our financial planning services have been provided at either no (or little additive cost) to our investment management services--something we call "value added." While this may change in the future, this remains a negotiable fee.

---

### **Investment Management Agreement**

As noted above in **Types of Advisory Services** you choose to have BEACON manage your assets. Realistic and measurable goals (OBJECTIVES and CONSTRAINTS) are recorded in your investment policy statement. As goals and objectives change over time, recommendations are made and implemented on an ongoing basis.

The scope of work and fee for an Investment Management Agreement is provided to you in writing prior to the start of the engagement. Our Investment Management Agreement includes:

#### BEACON'S Services

- ✚ Develop, with you, a written Investment Policy Statement which specifies your investment OBJECTIVES and CONSTRAINTS.
- ✚ Prepare an Investment Recommendation Matrix which identifies how your portfolio should be allocated by asset class, and also lists the individual investments deemed to be suitable for your portfolio. The asset allocation target may be periodically changed or your portfolio re-balanced due to changes in your circumstances or market conditions.
- ✚ Implement the agreed-upon Investment Recommendation Matrix.

- ✚ Monitor the portfolio to assure current asset allocation is in line with target asset allocation and make re-balancing changes as needed. Also, review the individual investments and report to you with Investment MEMOs, ADVISORYs, and ALERTs as necessary, and during client meetings.
- ✚ Measure and Report investment results to you quarterly and at year-end (Investment Review). BEACON'S quarterly and year-end reports will detail positions, valuations, cost basis, and performance. Additionally, on a monthly basis you will receive statements directly from the brokerage firm (e.g. Schwab Advisor Services) as well as confirmations of any transactions in each portfolio sub-account. BEACON will also receive this information from the broker. You can elect to receive either postal or email statements for both BEACON'S quarterly reports and the brokerage statements.
  - ✚ You are always urged to compare the custodians (Schwab Advisor Services et al) account statements with BEACON'S reports.

#### Your Responsibility

- ✚ Participate in meetings with BEACON as scheduled for review.
- ✚ Notify BEACON of significant cash flows (deposits and withdrawals) affecting your portfolio sub-accounts if not previously part of your Investment Policy Statement.
- ✚ Update BEACON of any material changes in your financial circumstances that may alter your Investment Policy Statement.
- ✚ Permit BEACON to execute agreed-upon trades in your portfolio sub-accounts with your written authorization to the broker or asset custodian. Your authorization will likely be evidenced by a limited power of attorney in favor of BEACON, and will follow those terms and conditions.
- ✚ Acknowledge that investment results are not guaranteed by BEACON.

The annual Investment Management Agreement fee is based on a percentage of the investable assets according to the following sliding-scale (tiered) schedule:

- ✚ 1.00%\_ on the first \$1,000,000;
- ✚ 0.75%\_ on the next \$1,000,000 (from \$1,000,001 to \$2,000,000); and
- ✚ 0.50%\_ on the assets above \$2,000,000.

The minimum annual fee for investment management is \$5,000 and is negotiable.

The Investment Management Agreement is an ongoing (i.e. evergreen) agreement. The length of service is at your discretion. You or BEACON may terminate an Investment Management Agreement by written notice to the other party. At termination, fees will be billed on a pro rata basis for the portion of the quarter completed. The portfolio value at the completion of the prior full billing quarter is used as the basis for the fee computation, adjusted for the number of days during the billing quarter prior to termination.

---


## Asset Management


As noted previously BEACON'S investment research and advice covers exclusively regulated investment companies, commonly known as mutual funds. We discuss this more fully later in the **Investment Strategies** sub-section of **Methods of Analysis, Investment Strategies and Risk of Loss**.

To understand the "kind" of investments in your brokerage accounts, we first distinguish between BEACON-managed (discretionary) accounts and your self-directed (non-discretionary) accounts. Discretionary accounts are managed by us. Non-discretionary accounts are managed by you with our administrative assistance. *Most of our clients have only discretionary accounts.*

Your assets in BEACON-managed (discretionary) accounts are invested exclusively in no-load mutual funds accessed through brokers like Schwab Advisor Services. Mutual fund companies charge you an investment management fee that is disclosed in the fund prospectus. Brokerages may charge a transaction fee for the purchase of some funds. BEACON does not receive any compensation, in any form, from fund companies or any third parties for that matter.

Your assets in self-directed (non-discretionary) accounts can be invested in a wide range of securities\* including individual stocks and bonds. The brokerage firm charges a fee for stock and bond trades. BEACON does not receive any compensation, in any form, from your account trades.

 \*Investments may also include: equities (stocks), warrants, corporate debt securities, commercial paper, certificates of deposit, municipal securities, investment company securities (variable life insurance, variable annuities, and mutual funds shares), U. S. government securities, options contracts, futures contracts, and interests in partnerships.

 Initial public offerings (IPOs) are not available through BEACON.

---

## Termination of Agreement

You may terminate either of the two aforementioned agreements at any time by notifying BEACON in writing and paying the rate for the time spent on the investment advisory engagement prior to notification of termination. If you made an advance payment, BEACON will refund any unearned portion of the advance payment.

BEACON may terminate either of the two aforementioned agreements at any time by notifying you in writing. If you made an advance payment, BEACON will refund any unearned portion of the advance payment.

## Fees and Compensation

---

Here we describe our fees, and the other likely costs you can expect from brokerages and mutual fund companies.

---

### Description

BEACON bases its investment management fees on a percentage of assets under management, an approach that is widely-used in the industry. (As noted previously, our financial planning fees include hourly charges and fixed. Financial planning work is priced according to the degree of complexity associated with the client's situation).

The annual Investment Management Agreement fee is based on a percentage of the investable assets according to the following sliding-scale (tiered) schedule:

#### Discretionary (managed) accounts:

- ✚ 1.00%\_ on the first \$1,000,000;
- ✚ 0.75%\_ on the next \$1,000,000 (from \$1,000,001 to \$2,000,000); and
- ✚ 0.50%\_ on the assets above \$2,000,000.

#### Non-Discretionary (client directed) accounts\*:

- ✚ 0.35%\_ on \$all; (\*if you want an institutional account with BEACON to benefit from tax-lot accounting, income tax reporting, and performance measurement reporting; often a non-discretionary account is used when you have given us a client-mandate to hold specified prior position(s) for personal, investment, tax, other reasons).

The minimum annual fee for investment management is \$5,000 and is negotiable.

BEACON, in its sole discretion, may waive its minimum fee and/or charge a lesser investment management fee based upon certain criteria (e.g., historical relationship, type of assets, anticipated future earning capacity, anticipated future additional assets, dollar amounts of assets to be managed, related accounts, account composition, negotiations with clients, etc.). This is depicted on your annual Fee-For-Service Schedule as a professional courtesy discount.

---

### Fee Billing

Investment management fees are billed quarterly, in advance, meaning that we invoice you before the three-month billing period has begun. Payment in full is expected upon invoice presentation. Your fees may be deducted (debited) from your designated client account to facilitate billing (see later section on **Custody**). You must consent in advance to direct debiting of your investment account. This is always done per a limited power of attorney form you sign with the custodian of your account(s). You select the account debit approach or opt to be billed directly.

Fees for financial planning work are billed in the same way as above.

---

## Other Fees

Custodians and brokers may charge transaction fees on purchases or sales of certain no-load mutual funds. These transaction charges are usually small and incidental to the purchase or sale of a security. In our opinion, the selection of the security is more important than the nominal fee that the custodian charges to buy or sell the security. For more information see **Brokerage Practices**.

---

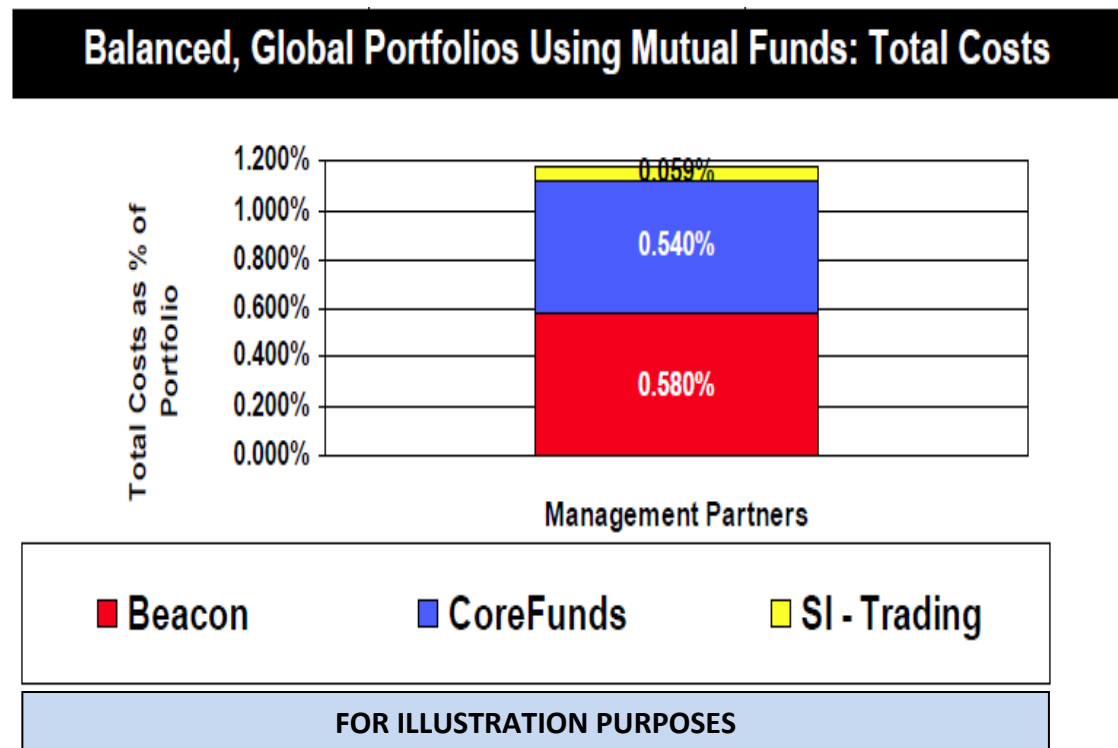
## Expense Ratios

Mutual funds generally charge a management fee for their services as investment managers. The management fee is the largest part of what is called an expense ratio. For example, an expense ratio of 0.50 means that the mutual fund company charges 0.5% for all their services. The mutual fund expense ratio is in addition to the fees you pay BEACON. Performance figures quoted by mutual fund companies in various publications are after their expense ratio has been deducted.

---

## Graphical Illustration of Fees and Compensation

The chart below is a visual of the different components of Total Costs you can expect (the actual %'s vary year to year and the chart below is illustrative and not indicative of any actual cost for a specific client or group). The bar chart shows BEACON'S **fees**, the average **expense ratios** of **the mutual funds** we use, and the **transactions fees** and/or commissions charged for **brokerage** purchase and sale trades.



## Performance-Based Fees

---

Here we explain that we do not assess performance-based fees.

---

### Why we do not use Performance-Based Fees

Our fees are not based on a share of the capital gains or capital appreciation of your managed securities.

BEACON does not use a performance-based fee structure because of the potential conflict of interest and the high cost to you. Our general observation about Performance-based compensation is:

- ✚ Performance-based compensation may create an incentive for the adviser to recommend an investment that may carry a higher degree of risk to the client, and often include investments that are highly illiquid like private placement equities, etc., or are unusually complex.
- ✚ Performance-based fees are commonly quite high. For example, in the hedge-fund industry performance-based fees typically range from 1% to 2% of the assets managed, plus 20% to 25% of the gains/appreciation (not of the losses).

## Types of Clients

---

Here we describe our client-types and their attributes.

---

### Description

BEACON primarily provides our services to individuals and families, and their related pension and profit sharing plans, 401k plans, trusts, charitable entities, and estates. These individuals and families include professionals like attorneys and physicians, as well as corporate employees. Many of our clients are retired from the workplace.

Our client engagements vary in scope and length of service. The scope of service is primarily dependent on your complexity and needs. Regarding length of service, our goal is an evergreen working relationship with you. We have provided continuous service to many clients for ten to twenty years or more.

---

### Account Minimums

BEACON does not specify a minimum account size of assets under management, however our minimum annual fee for investment management is \$5,000. Using our fee schedule this translates to a starting account size of \$500,000 or more.

BEACON, in its sole discretion, may waive its minimum fee and/or charge a lesser investment management fee based upon certain criteria (e.g., historical relationship, type of assets, anticipated future earning capacity, anticipated future additional assets, dollar amounts of assets to be managed, related accounts, account composition, negotiations with clients, etc.). This is depicted on your annual Fee-For-Service Schedule as a professional courtesy discount.

While every client engagement is unique, clients' engaging BEACON for both investment management plus financial planning services typically have investable assets of \$1,000,000 or more, and clients' engaging BEACON for only investment management typically have \$500,000 or more.

---

### Attributes of Types of Clients We Serve

We believe our services are best suited for clients that consider the following factors to be important to their selection of an investment manager and financial advisor:

- + Believe **investing is an integral part of financial planning**, not an end in itself.
- + Pursue a **balanced, global portfolio construction approach** with **no load mutual funds** (often institutional class).
- + Recognize financial planning and investment management are **lifelong endeavors** as contrasted with one-time engagements.
- + Understand their financial life is integrated and will teamwork with Beacon in managing the **totality** of their financial and investment life.
- + Prefer a **personable, independent firm** for whom they are always important clients.

## Methods of Analysis, Investment Strategies and Risk of Loss

---

**Here we explain our investment strategy that we refer to as balanced, global investing using mutual funds. We further explain how we research our mutual fund partners. Finally, we discuss investing risk generally and how risk of loss is an important consideration in any investment strategy including ours. Importantly, our methods of analysis and investment strategy do not involve unusual risks.**

---

### Methods of Analysis

Security analysis methods generally may include charting, fundamental analysis, technical analysis, and cyclical analysis. We primarily use mutual fund partners that apply fundamental analysis for the holdings in your account/portfolio.

The main source of information we use to select our mutual fund partners is conducting meetings either face-to-face, online, or by phone. We review research papers they present as foundational principals on their methods, as well as their

proxy materials and shareholder letters. As supporting materials, we also use purchased research resources (e.g. Morningstar Principia, etc).

---

### Investment Strategies

We believe in (what we call) "balanced, global" portfolio construction and management. Rather than focus exclusively on a single asset class (stocks or bonds, etc.), we inclusively use multiple asset classes when building portfolios for you. **Balanced** means we diversify across asset types with different risk / reward profiles. **Global** means assets span the investment world's borders to take advantage of attractive investment opportunities wherever they present themselves.

Investment advisors are often categorized by the investment "style" used such as growth, momentum, value, indexing, etc. In our role as investment advisor, we are free to use various money managers (via mutual funds), thus enabling you to enjoy the diversification benefit of multiple styles in your portfolio. We're not locked into a single investment world-view, allowing for flexibility in our decisions. *We most often use "active" investment managers that make investment decisions based on extensive research, in contrast with "passive" strategies like index funds.* We believe asset prices (stocks, bonds, etc.) can stray from their fundamental value in part because many investors buy and sell based on emotions like greed, fear and panic, producing short-term volatility. We believe that investing for the long term, based on thorough fundamental research and valuation discipline, is appropriate for any market environment. In contrast to "buy and hold" we prefer "buy and closely monitor." We believe in owning real businesses, not in "trading stocks." That is the guiding principal helping us select mutual fund partners for your portfolio.

We practice *integrated asset allocation* and believe that asset allocation---the way your portfolio holdings are divided among stocks, bonds and other asset classes---is an important determinant of your investment results over time. We also believe foreign (non-U.S.) assets are important in modestly reducing long-term portfolio risk while preserving and enhancing long-term return potential. We use eight (8) distinct asset classes overall with this categorization:

#### Strategic Asset Classes:

U.S. Stocks (small, mid & large capitalization)  
Foreign (non-US) Developed Market Stocks  
U.S. Bonds  
Cash Equivalents

#### Tactical Asset Classes:

Real Estate Stocks (REITs)  
Emerging Market (non-U.S.) Stocks  
Foreign (non-U.S.) Bonds  
Commodity-linked assets

We define **strategic** asset classes as those used all the time in your *balanced, global* portfolio, and generally make up 75% or more of your total portfolio. We define **tactical** asset classes as those used on occasions we believe economic conditions favor one or more, and these asset classes generally make up from 0% to 25% of your *balanced, global* portfolio.

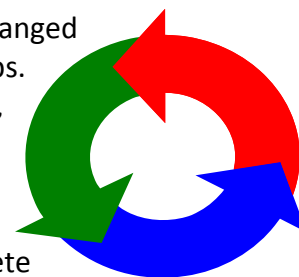


The *raison d'être* of our investment strategy is it is based on articulating and accomplishing your financial life goals (see reasons for both financial planning and investment management in **Advisory Business, Types of Advisory Services**). This is important because it is distinguished from shortsighted strategies like trying to "beat the market." We use a logical, disciplined 7-step process to construct your investment portfolios.

1. **Know Thy Client** - Set your investment policy with your financial goals.
2. **Take The Temperature** - Assess capital markets and assign asset class targets.
3. **Pick The Players** - Select mutual funds.
4. **Get Going** - Implement your investment plan.
5. **Times Are A'Changing** - Monitor and respond to changed markets and changes in your financial status.
6. **Buy Low, Sell High** - Re-balance your portfolio.
7. **How'd I Do?** - Measure and present investment performance to you.

We believe portfolio management is an evolving process that is also *iterative* or repetitive. After reaching the final step in our 7-step process, changed circumstances--often yours--may dictate a re-trace of earlier steps.

Our booklet, Balanced, Global Portfolios Using Mutual Funds, describes the thoughtful investment process we use to manage your money. We highlight the major aspects of each step to offer you clearer insight and full disclosure into our investment management methodology and perspective (ask us for a complete copy of Balanced, Global Portfolios Using Mutual Funds).



Our client service-brief Beacon's Approach To Client Service: TEAMWORK...Assigning The Team Members describes the role our mutual fund partners play as a member of your financial "team" and the role of other team members (accountant, attorney, etc.). Below are the roles for **you, the client**, and **INVESTMENT PARTNERS, the mutual funds** (ask us for a complete copy):

THE CLIENT	
➤	Joe Q. & Joan G. Investor
➤	Owner, Chairman and Chief Executive Officer
➤	Highest authority on team
➤	Entity to whom all team members are ultimately responsible and accountable (directly or indirectly)
➤	Power to hire, fire all team members
➤	Delegates certain well-specified functions to other team members
INVESTMENT PARTNERS	
➤	Mutual Fund Managers, often institutional share classes
➤	Hired by ADVISOR to perform industry and security analysis, issue selection, and currency management within a particular asset class for CLIENT'S portfolio
➤	Outsourced Consultant
➤	Reports investment results to ADVISOR and CLIENT
➤	Recognizes ownership by CLIENT
➤	Contracts with CUSTODIAN for shelf-space
➤	Paid <u>indirectly</u> by CLIENT via operating expenses deducted from returns

---

## Risk of Loss

As an investor you are faced with a baffling universe of financial assets to build your investment portfolio. Many investors go about it thematically, something like this:

- ✓ Growth is a goal, so I'll invest in stocks.
- ✓ Income and stability is a goal, so I'll invest in bonds.
- ✓ Safety and liquidity is a goal, so I'll invest in money market funds.

This common approach seems logical, but we believe it really is flawed, because for most people all the goals above--growth, income, stability, safety, liquidity, etc.--are important and there is no one "right" type of investment. A bit later on we'll discuss why we favor asset allocation (i.e. diversification) that mixes different types of risky investments to reduce risk (our "balanced, global" approach). Before doing so, let's mention several prominent investment risks.

All investment types or approaches or strategies have different risks that challenge investors. Investors contend with the following major investment risks depending on the security type (list is not all inclusive of every type of investment risk):

- ✚ Interest-rate Risk: Fluctuations in interest rates may cause investment prices to fluctuate. For example, when interest rates rise, yields on existing bonds become less attractive, causing their market values to decline.
- ✚ Market Risk: The price of a security (e.g. stock, bond, or the net asset value of a mutual fund) may decline in reaction to tangible and intangible events and conditions. This type of risk is caused by external factors independent of a security's particular underlying circumstances. For example, political, economic and social conditions may trigger market events.
- ✚ Inflation Risk: When any type of inflation is present, a dollar today will not buy as much as a dollar next year, because purchasing power is eroding at the rate of inflation.
- ✚ Currency Risk: Overseas (non-US) investments are subject to fluctuations in the value of the dollar against the currency of the investment's originating country. This is also referred to as exchange rate risk.
- ✚ Reinvestment Risk: This is the risk that future proceeds from investments may have to be reinvested at a potentially lower rate of return (i.e. interest rate). This primarily relates to fixed income securities (e.g. bonds).
- ✚ Business Risk: These risks are associated with a particular industry or a particular company within an industry. For example, oil-drilling companies depend on finding oil and then refining it, a lengthy process, before they can generate a profit. They carry a higher risk of profitability than an electric company, which generates its income from a steady stream of customers who buy electricity no matter what the economic environment is like.

Technological developments can render once profitable products less profitable or even obsolete, as another example.

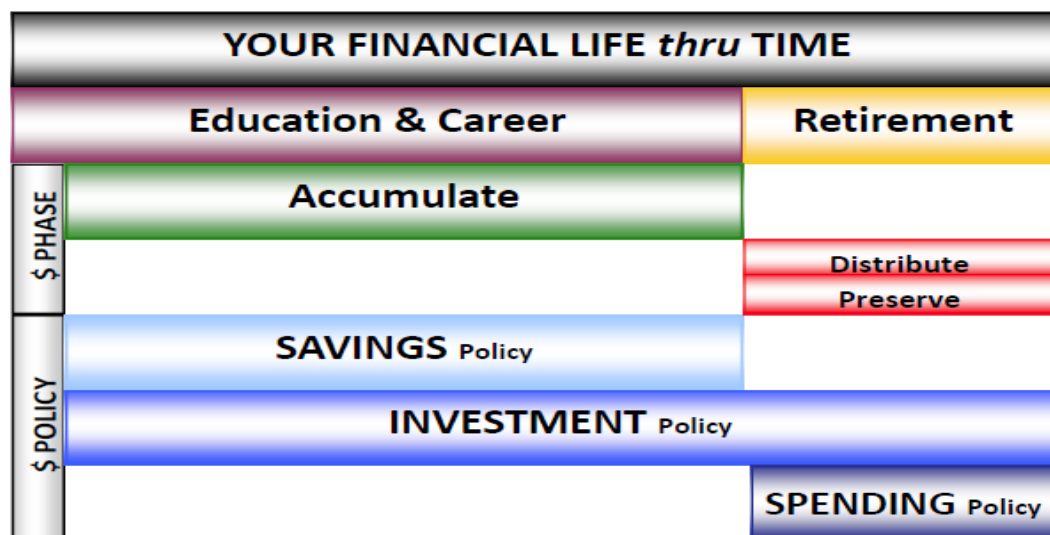
- ✚ Liquidity Risk: Liquidity is the ability to readily convert an investment into cash. Generally, assets are more liquid if many traders are interested in a standardized product. For example, Treasury Bills are highly liquid, while real estate properties are not.
- ✚ Financial Risk: Excessive borrowing to finance a business' operations increases the risk of profitability, because the company must meet the terms of its obligations in good times and bad. During periods of financial stress, the inability to meet loan obligations may result in bankruptcy and/or a declining market value.

### Beacon's Approach to Risk Management

#### BEACON'S VIEW:

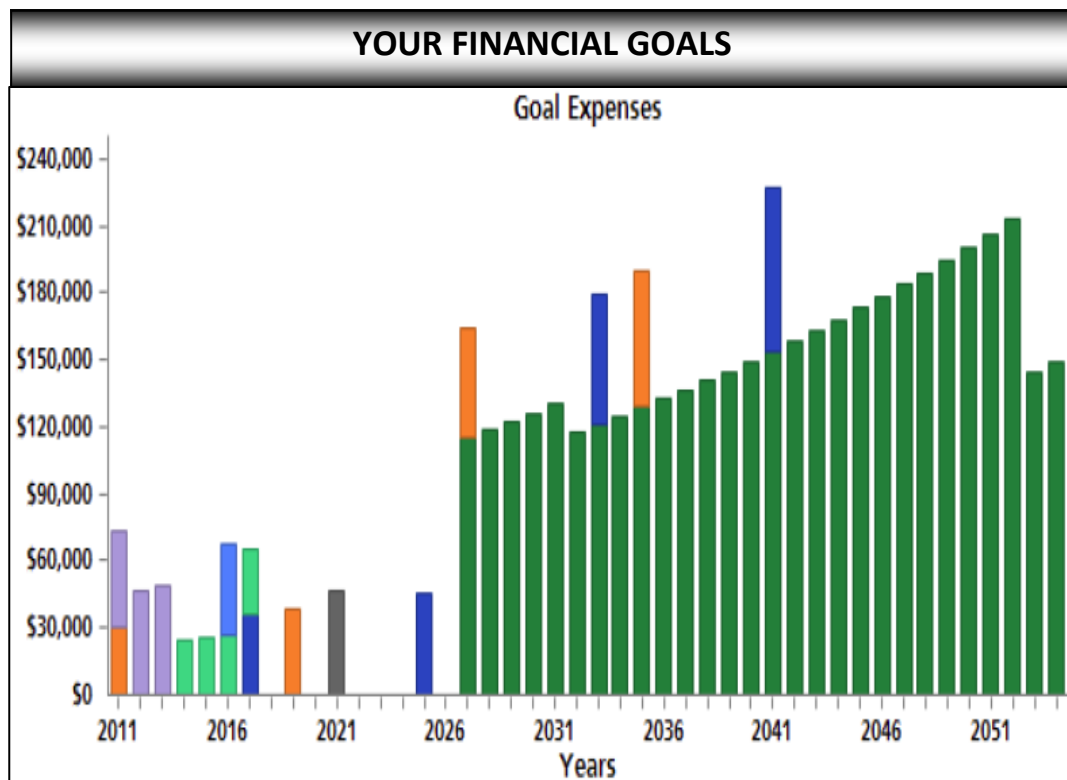
*"We believe your greatest risk is exhausting your money before exhausting your time. While we cannot eliminate declines in the value of your total portfolio over short periods (volatility), we emphasize the long term benefits of diversification and steadfastness to your plan as the best ways to manage your greatest risk."*

We help you articulate and implement our investment strategy with full consideration to **YOUR FINANCIAL LIFE *thru* TIME** (chart below). **YOUR FINANCIAL GOALS** (chart top next page) drive your policies of savings, investment, and spending. These set the foundation for establishing your investment return target and risk tolerance range. We run extensive **SIMULATIONS** (chart bottom next page) to gauge the probability your capital will outlast you. After we determine your target return and risk, we then can allocate (diversify) your assets (more about risk and asset allocation to follow).



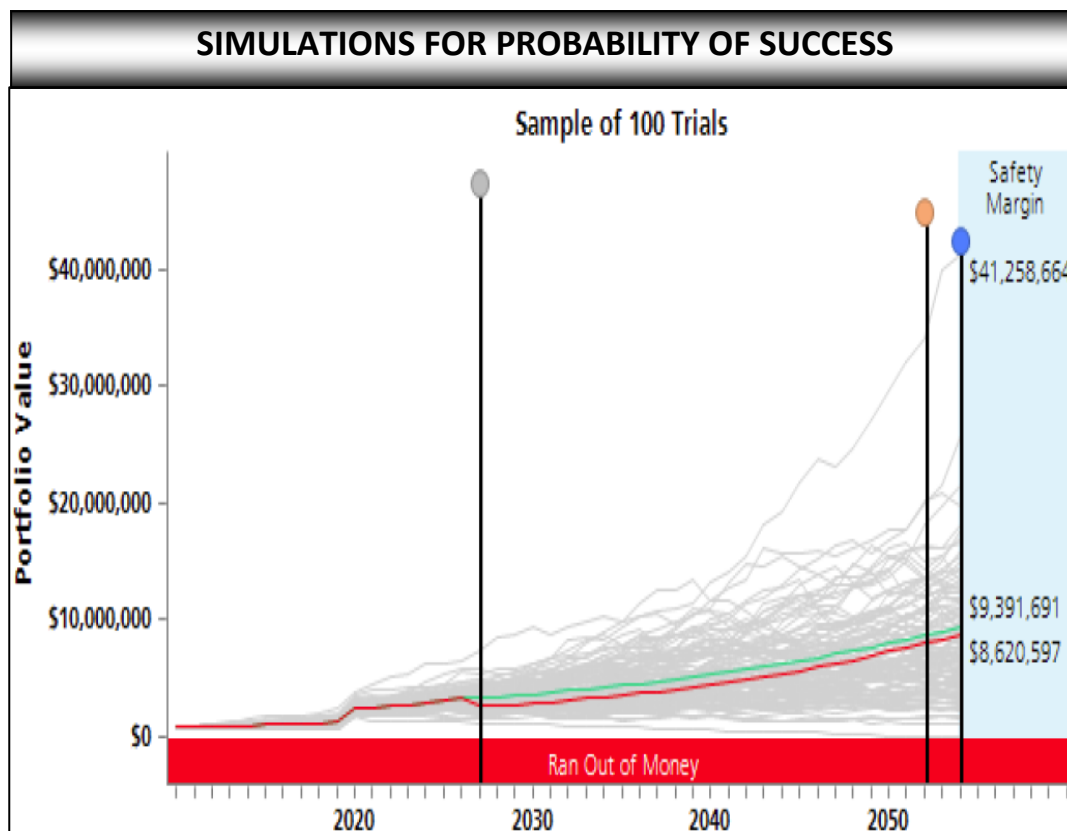
***"A goal without a plan is just a wish."***

Antoine de  
Saint-Exupéry  
French Writer  
1900-1944





***"A plan without execution is just a dust bin."***


Beacon Financial  
Advisors, Ltd.  
20XX





Our approach to manage investment risk(s) is to consider risk from the perspective of your total portfolio. Our experience affirms our belief that your greatest risk is exhausting your money before exhausting your time. We believe the best way to create and preserve your wealth is to take advantage of risk. We noted previously in **Investment Strategies** the *raison d'être* of our investment strategy is that it is based on articulating and accomplishing your financial life goals in contrast to shortsighted efforts like "beating the market." For us the starting point is your Investment Policy Statement (IPS).

 **Benefits** of an Investment Policy Statement (IPS) - An IPS has a plethora of benefits for both Beacon and you. An IPS is to investing what a road map is to the vacationing family on a cross-country trip, serving to plot the ultimate destination as well as the course. Perhaps the chief benefit is that an IPS helps avoid misunderstandings and paves a path for clear and open communication. Next, you are confronted with the realities of investing versus simply relying upon wishful thinking or unreasonable expectations. Beacon must get **IN YOUR HEAD** right from the start, and we spend time educating and informing you as necessary. After all, many of our clients are physicians, attorneys, business professionals, etc., not investment experts. Beacon benefits from the IPS in that we increase our understanding and appreciation of your concerns. We are able to move away from vague ideas and onto concrete, measurable targets. We learn your expectations and are better able to meet them through confident initial investing and ongoing management in accordance with your IPS.

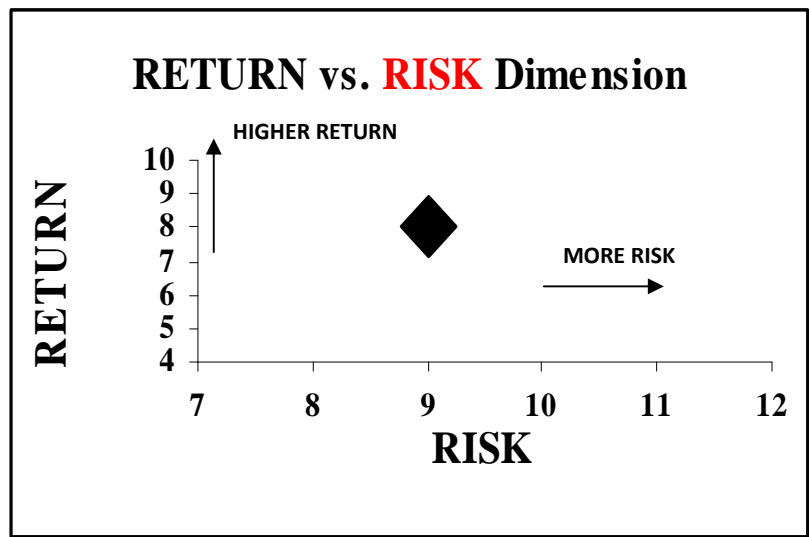
 **Features** of an Investment Policy Statement (IPS) - The key areas that must be **BRIDGED** are your objectives and constraints. An IPS is not cast in concrete. We constantly review financial considerations with you that can impact and change your IPS. Your IPS affords substantive benefits. You can use the business cycle to your advantage and avoid the emotional swings of the differing winds of opinion. You will develop expectations aligned with your goals, and the ever-evolving investment climate. Circumstances will change, and surely there will be bumps in the road. After all, financial markets can be volatile. However, we believe if you make investment decisions based on your reasonable goals you'll find that a road map makes the **JOURNEY** a lot more enjoyable to the **DESTINATION** of successful investing and financial independence.



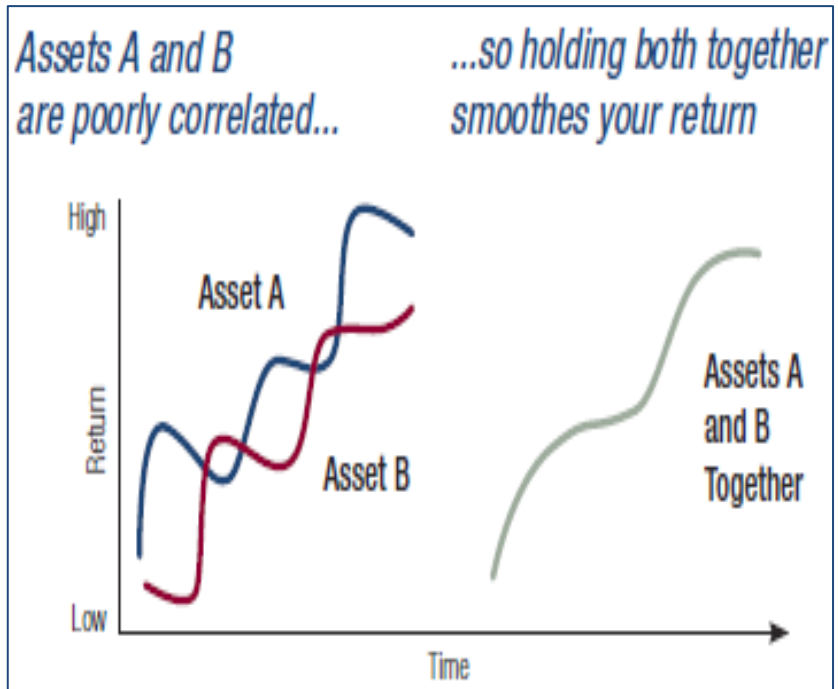
Bridging Components of Your Investment Policy Statement	
<b><u>Your OBJECTIVES</u></b> <ul style="list-style-type: none"> <li>✓ Return</li> <li>✓ Risk Tolerance</li> </ul> 	<b><u>Your CONSTRAINTS</u></b> <ul style="list-style-type: none"> <li>✓ Need for Liquidity</li> <li>✓ Income Requirements</li> <li>✓ Time Horizon</li> <li>✓ Tax Considerations</li> <li>✓ Legal and Regulatory Issues</li> <li>✓ Personal Preferences</li> </ul>


 Asset Allocation (i.e. diversification) - Asset allocation is to investing as interior painting is to home decorating. Homemakers take care to tastefully coordinate furniture and room accompaniments with the color of drapes and walls. The painter is able to mix and match paints and thinners to get *just the right shade*. Similarly, BEACON works hard to determine exactly what you want from your financial and investment plan. Afterwards, our asset allocation work signals our attempt to get *just the right mix* of investment risk and return suitable to your tastes. Asset allocation has three (3) dimensions and makes risk work for you:

1. return - the rate of *return*, or *total return*, is the sum of all income, gains and losses in the period (realized and unrealized); *return* is generally the most commonly understood dimension among investors.
2. volatility - the measure of price movement in your portfolio from period to period, usually measured by the standard deviation of returns. BEACON pays lots of attention to assessing volatility.



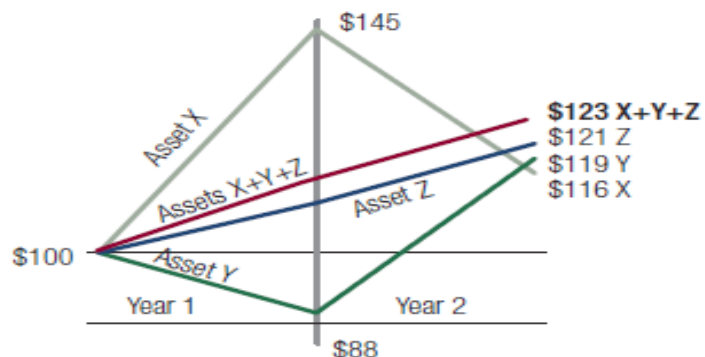
3. correlation - the degree to which assets in the portfolio move in concert with, or opposite of, each other. By selectively deploying and mixing weakly or poorly correlated, “risky” assets in a portfolio, the overall result to the entire portfolio can be something “less risky”. The two charts below illustrate how the three dimensions of asset allocation helps make risk work for you:



*Picking which asset to choose looks obvious...*

	Asset X	Asset Y	Asset Z
Year One	45%	(12)%	10%
Year Two	(20)	35	10
Avg. Annual Return	12.5%	11.5%	10%

*...but don't be so sure: Volatility undercuts assets X and Y, while diversifying among all three gives you the best gain*





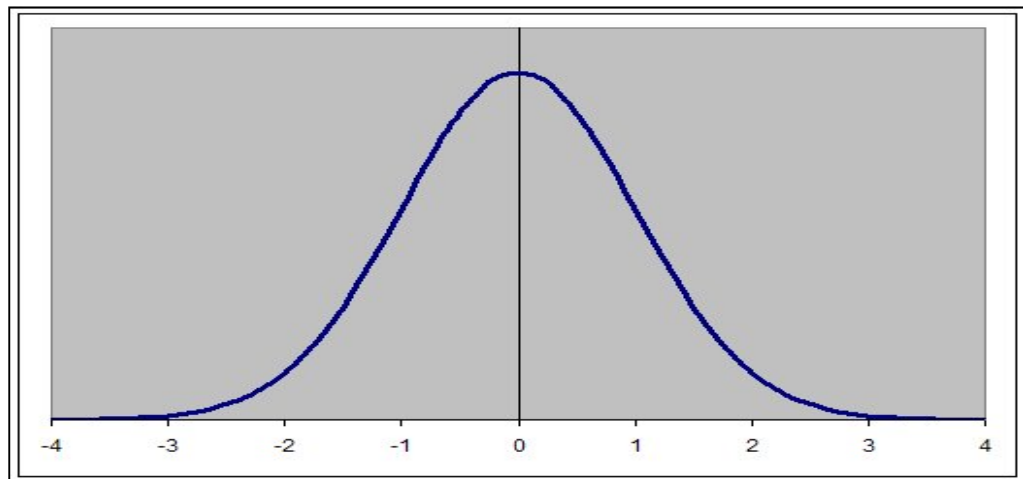
**BEACON'S  
VIEW:**

**VOLATILITY**  
is meant to  
describe  
times when  
the value of  
assets in  
your  
portfolio  
fall in price  
(usually  
short term).

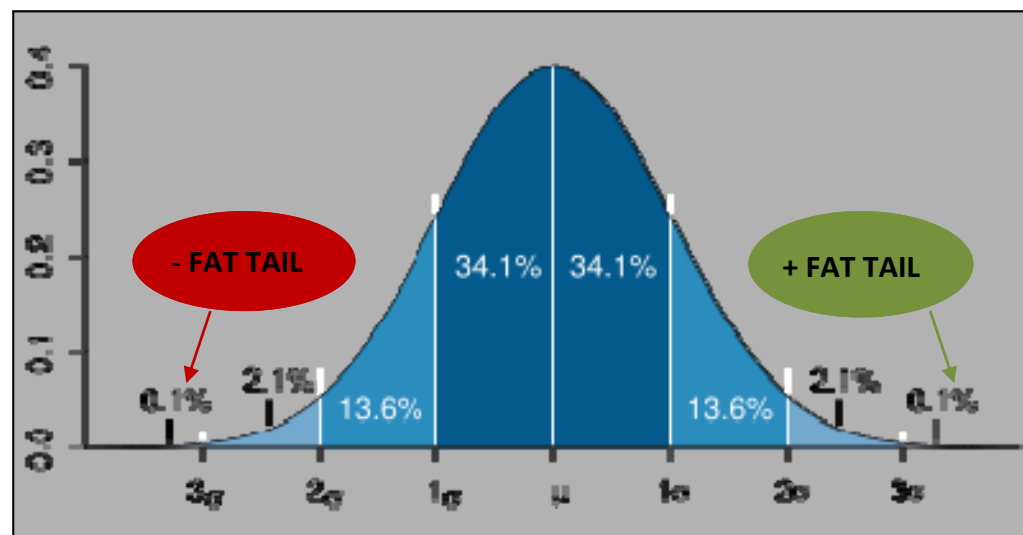
**RISK** is  
meant to  
describe  
the chances  
of not  
meeting  
your goals  
(principally  
long term).

We believe  
**VOLATILITY**  
can provide  
opportunity  
to  
rebalance  
your  
portfolio  
[a.k.a. buy  
low(er), sell  
high(er)].

**Understanding Volatility and Risk from BEACON'S perspective** - Volatility is meant to describe times (usually short term) when the value of assets in your portfolio fall in price. Risk is meant to describe the chances of not meeting your goals (principally long term). Let's consider terms that help you understand our views on VOLATILITY and RISK. We all remember grade school--- a few slowpokes, the really brainy-kids, and most of us in the middle. Thinking along those lines, we remember the bell curve shown below.



If we fill in the bell curve to include percentage (%) outcomes we get the bell curve below with outcome ranges and standard deviation measures.



Standard deviation is the investment industry's standard way of describing just how variable something like a stock's price or investment return *has been* and probably *will be* in the future—a way of measuring volatility. It's based on the assumption the outcomes are distributed "normally" along the bell curve, with most outcomes clustered around an average and a certain number of "outliers" at the two extremes, or the tails. The chart above shows a single standard deviation (1σ)



**BEACON'S  
VIEW:**

**We believe  
it is always  
appropriate  
for you  
to  
remain  
diversified,  
and to  
maintain a  
long-term  
investment  
focus.**

**BEACON  
will  
not deviate  
from your  
investment  
plan unless  
you  
mandate  
we do so.**

includes about 2/3's or 67% of outcomes. Two standard deviations ( $2\sigma$ ) includes about 9/10's or 90% of all outcomes, and so on. In fact, statistics show the monthly returns of the Standard & Poor's 500 Index (S&P 500) fall mostly within the familiar bell curve. But "outliers" have occurred, dizzying price increases and drops. So, it is important to remember standard deviation is a measurement, not a limit.

**What about extreme volatility?** We noted that two standard deviations include about 90% of all outcomes; three standard deviations ( $3\sigma$ ) cover about 95% of all outcomes and so on. But, what about the times stock returns fall outside (below or above) one or even three standard deviations—such extreme volatility may be statistically improbable but it can and does happen. In the bottom chart on the prior page, the **red** and **green** circles are known as "fat tails"—events that are way off the statistical average—uncommon but possible. To put it another way, "fat tails" are low probability / high stress events. We can apply "fat tails" to an example like **tropical storms** and **hurricanes** to gain a better understanding. The "average" **tropical storm** has winds up to 75 mph, and most structures today are built to withstand them. But there have been awful **hurricanes** with 200 mph winds and huge tidal surges—"fat tails" on the hurricane curve—that can destroy and take life. So, while stocks present a historical and predictive pattern of volatility that normally falls within manageable ranges, negative "fat tails" are a possibility. It is essential your investment plan makes accommodation for these phenomena—principally through rebalancing—so that your portfolio values can recover afterwards.



Let's sum up: We believe financial market volatility is unavoidable. But, we believe volatility is potentially opportune. **Rebalancing** your portfolio by buying depressed assets and selling appreciated assets can be highly effective. Even in those rare but extreme times when "fat tails" happen, we believe it is always appropriate for you to remain diversified, and to maintain a long-term investment focus. BEACON will not deviate from your investment plan unless you mandate we do so.



## Disciplinary Information

---

Here we describe there have been no legal and/or disciplinary incidents that involved us and clients, past or present.

---

### Legal and Disciplinary

Beacon and its employees have not been involved in legal or disciplinary events related to clients, past or present.

## Other Financial Industry Activities and Affiliations

---

Here we describe/explain any relationship or arrangement that is material to our advisory business or to you with related person and if the relationship or arrangement creates a material conflict of interest for you and us.

---

### Financial Industry Activities

BEACON is not registered as a securities broker-dealer, or a futures commission merchant, commodity pool operator or commodity trading advisor.

---

### Affiliations

BEACON has no relationship or arrangements that are material to our advisory business or you with a related person who is an investment company, other investment advisor, financial planning firm, commodity pool operator, commodity trading adviser or futures commission merchant, banking or thrift institution, accounting firm, law firm, insurance company or agency, pension consultant, real estate broker or dealer, or an entity that creates or packages limited partnerships.

BEACON describes later in **Brokerage Practices** the arrangement we have with Schwab Advisor Services™ (formerly called Schwab Institutional®), a division of Charles Schwab & Co., Inc. ("Schwab"), a registered broker-dealer, member SIPC, as the qualified custodian.

## Code of Ethics, Participation or Interest in Client Transactions and Personal Trading

---

Here we note that we are a fiduciary to you with a duty to act solely in your best interest. We have a written policies and procedures manual instructing our employees in practical ways to put your interests first.

---

## Code of Ethics

The employees of BEACON have committed to a Code of Ethics that is available for review by you and prospective clients upon request. We will provide a copy of the Code of Ethics to you or prospective clients upon request.

Our Code of Ethics includes the following core principles:

-  Objectivity
-  Full Disclosure
-  Integrity and Honesty
-  Competence
-  Confidentiality
-  Professionalism
-  Regulatory Compliance

---

## Participation or Interest in Client Transactions

BEACON does not act as a principal, broker, or agent in regard to securities you buy or sell. We have no financial interest in any securities you buy or sell. As noted earlier in **Methods of Analysis, Investment Strategies and Risk of Loss** our recommendations to you exclusively include no-load mutual funds.

BEACON does not have, nor expects to have, any mutual fund shares like those we recommend to you (e.g. stocks, bonds, etc.). As noted earlier in **Advisory Business/Principal Owners**, BEACON is a limited liability company (LLC) taxed like a partnership. Practically that means all net income flows to the LLC members. It is likely BEACON will have a bank account and/or a brokerage account with funds held in short-term money market funds for normal operating expenses.

BEACON'S employees may buy or sell securities that are also held by clients. As noted above, our recommendations to you exclusively include no-load mutual funds. From a philosophical perspective, we believe in "eating our own cooking" meaning our employees personal portfolios may hold the same no-load mutual funds we recommend to you. We believe this approach more closely aligns interests between us and you concerning our role in your securities transactions.

***"...we believe in "eating our own cooking" meaning our employees personal portfolios may hold the same no-load mutual funds we recommend to you. We believe this approach more closely aligns interests between us and you concerning our role in your securities transactions."***

---

## Personal Trading

The Chief Compliance Officer of BEACON is Marcel J. Hebert. He reviews all employee trades each quarter. His trades are reviewed by Joshua J. Hebert. As noted above in our "eat your own cooking" observation, since all employee trades are mutual fund trades, the trades do not affect the securities markets.

## Brokerage Practices

---

Here we describe the factors we consider in recommending brokerage firms and determine the reasonableness of their compensation (fees, commissions, etc.).

---

### Selecting Brokerage Firms

Brokerage Firm(s) BEACON recommends/requires - BEACON does not maintain custody of your assets that we manage (i.e. we don't have possession of your money). We may be "deemed" by government regulations to have custody of your assets if given the authority to withdraw assets from your accounts (see section on **Custody**). Your assets must be maintained in an account at a "qualified custodian," generally a broker-dealer or bank. BEACON recommends (and in some cases requires) that you use Schwab Advisor Services™ (formerly called Schwab Institutional®), a division of Charles Schwab & Co., Inc. ("Schwab"), a registered broker-dealer, member SIPC, as the qualified custodian. Schwab will hold your assets in a brokerage account and buy and sell securities when BEACON instructs them to. We recommend (and in some cases require) that you use Schwab as custodian/broker. However, you will decide whether to do so and will open the account(s) with Schwab by entering into an account agreement directly with them. BEACON assists you in opening account(s), and in needed instances Schwab assists as well.

Some of your accounts that BEACON manages may be required to be held in custody at custodians other than Schwab. For instance, your employer's retirement account (e.g. 401k, 403b, 401a, 457b, etc.) is offered exclusively through an approved broker (e.g. Fidelity, Vanguard, etc.) and you haven't the option to use Schwab.

BEACON is independently owned and operated and is not affiliated with Schwab, and has no compensatory arrangement with Schwab. BEACON does not receive fees or commissions from any of these arrangements.

How We Select Brokers/Custodians - BEACON seeks to use a custodian/broker who will hold your assets and execute transactions on terms that are, overall, most advantageous when compared to other available providers and their services. We consider a number of factors, including, among others:

- ✚ Combination of transaction execution services and asset custody services (generally without a separate fee for custody)
- ✚ Capability to execute, clear, and settle trades (buy and sell securities in your account).
- ✚ Capability to facilitate transfers and payments to and from your accounts (wire transfers, check requests, bill payment, etc.)

- ✚ Breadth of available investment products (stocks, bonds, mutual funds, etc.), especially a large platform of no-load and institutional share class mutual funds.
- ✚ Quality of services, especially a dedicated group of professionals assigned to work exclusively with BEACON and you.
- ✚ Competitiveness of the price of those services (commission rates, margin interest rates, other fees, etc.) and willingness to negotiate the prices.
- ✚ Reputation, financial strength, and stability.
- ✚ Prior service to BEACON and you.

Products and Services Available to Us from Schwab: Schwab Advisor Services™ is Schwab's business serving independent investment advisory firms like BEACON. Schwab provides us and you with access to its institutional brokerage--trading, custody, reporting, and related services--many of which are not typically available to Schwab retain customers. Schwab also makes available various support services. Some of those services help us manage or administer our clients' accounts. Schwab's support services generally are available on an unsolicited basis (we don't have to request them) and at no charge to us so long as our clients collectively maintain a total of at least \$10 million of their assets in accounts at Schwab. If our clients collectively have less than \$10 million in assets at Schwab, Schwab may charge us quarterly service fees of \$1,200.00. Following is a more detailed description of Schwab's services.

- ✚ Services That Benefit You - Schwab's Institutional brokerage services include access to a broad range of investment products, execution of securities transactions, and custody of client assets. The investment products available through Schwab include some to which we/you might not otherwise have access to or that would require a significantly higher minimum initial investment by our clients.
- ✚ Services that May Not Directly Benefit You - Schwab also makes available to us other products and services that benefit us but may not directly benefit you or your account. These products and services assist us in managing and administering our clients' accounts. They include investment research, both Schwab's own and that of third parties. We may use this research to service all or a substantial number of our clients' accounts. (Of note, while BEACON has access to this research via Schwab we do not rely only on this source. We pay license fees directly to independent research companies [e.g. Morningstar] to aid in our overall research effort). In addition to investment research, Schwab also makes available software and other technology that:
  - ✚ Provide access to client account data (such as duplicate trade confirmations and account statements).
  - ✚ Facilitate trade execution.
  - ✚ Provide pricing and other market data.
  - ✚ Facilitate payment of our fees from our clients' accounts (as described in **Fees and Compensation, Fee Billing**).

- ✚ Assist with back office functions, recordkeeping, and client reporting.

- ✚ Services That Generally Benefit Only Us - Schwab also offers other services intended to help us manage and further develop our business enterprise. These services include:

- ✚ Educational conferences and events.

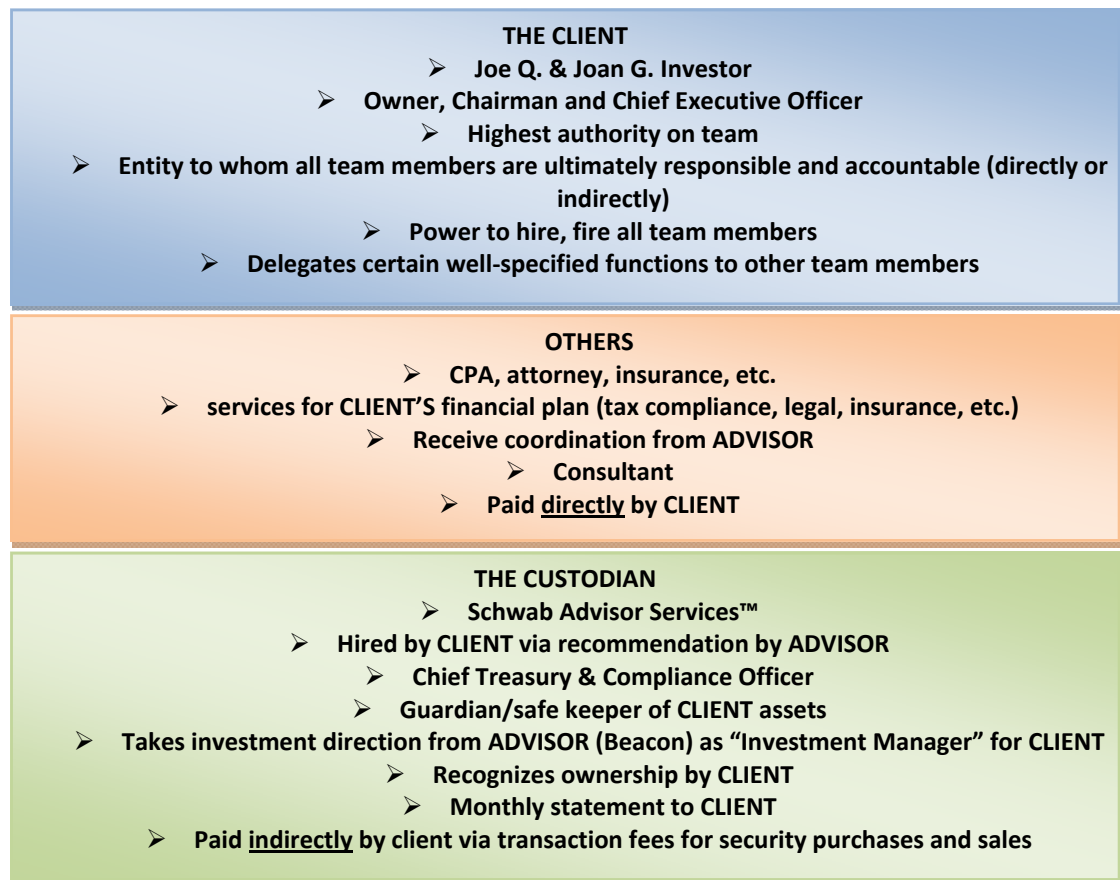
- ✚ Consulting on technology, compliance, legal, and business needs.

- ✚ Publications and conferences on practice management and business succession.

Schwab may provide some of these services itself. In other cases, it will arrange for third-party vendors to provide the services to us. Schwab may also discount or waive its fees for some of these services or pay all or part of a third party's fees.

- ✚ Our Perspective on Schwab's Services - The availability of these services from Schwab benefits us because we do not have to produce or purchase them. We don't have to pay for Schwab's services so long as our clients collectively keep a total of at least \$10 million of their assets at Schwab. Beyond that, these services are not contingent upon us committing any specific amount of business to Schwab in trading commissions or assets in custody. The \$10 million minimum may give us an incentive to recommend/require that you maintain your account with Schwab, based on our interest in receiving Schwab's services that benefit our business rather than based on your interest in receiving the best value in custody services and the most favorable execution of your trades. This is a potential conflict of interest. We believe, however, that our selection of Schwab as custodian and broker is in the best interests of our clients. Our selection is primarily supported by the scope, quality, and price of Schwab's services (as described previously in **How We Select Brokers/Custodians**) and not Schwab's services that benefit only us. We have \$159,436,361 in client assets under management, and we do not believe that recommending/requiring our clients to collectively maintain at least \$10 million of those assets at Schwab in order to avoid paying Schwab quarterly service fees presents a material conflict of interest.

As described in **Advisory Business, Firm Description**, our client service-brief Beacon's Approach To Client Service: TEAMWORK...Assigning The Team Members has an easy-to-follow chart that describes the role Schwab plays as a member of your financial "team" and the role of other team members (accountant, attorney, etc.). On the top of the next page are the roles for **you, the client**, **your other advisors**, and **Schwab, the broker/custodian**, and (ask us for a complete copy):



---

### Best Execution

BEACON reviews the execution of trades at Schwab each morning after trades are placed. Normally if a problem arises Schwab will contact us before executing the trade. Trading fees charged by Schwab are also reviewed on this schedule. BEACON does not receive any portion of the trading fees.

Your Brokerage and Custody Costs - For our clients' accounts that Schwab maintains, Schwab generally does not charge you separately for custody services but is compensated by charging you commissions or other fees on trades that it executes or that settle into your Schwab account. We negotiated Schwab's commission rates applicable to your client accounts. This negotiation benefits you because the overall commission rates you pay are lower than they would be otherwise. Normally your accounts will consist entirely of mutual fund shares, and in all cases BEACON exclusively uses only "no-load" mutual funds. In some instances, the mutual funds we buy are part of Schwab's One Source platform and there is no commission (or transaction fee) paid to Schwab by your account. In other instances the mutual funds we buy are subject to nominal transactions fees paid by your account to Schwab. Presently regardless of the \$ size of the purchase or sale we make in your



account in our selected mutual funds your Schwab transaction fee will not exceed \$49/trade.

---

**Soft Dollars**

Presently BEACON does not have any soft dollar arrangements with any third parties, including Schwab, other than those services described in **Selecting Brokerage Firms**.

---

**Order Aggregation**

As previously noted, BEACON exclusively uses no-load mutual funds in your accounts that we direct (discretionary). Since all these trades are mutual funds trade aggregation is not applicable to you.

## **Review of Accounts**

---

**Here we describe our method of reviewing your accounts, the frequency and nature of the reviews, the persons that perform the reviews, and how we report to you.**

---

**Periodic Reviews**

Account reviews are performed by advisors Marcel J. Hebert (Chief Investment Officer and Chief Compliance Officer) and Joshua J. Hebert (Associate Advisor). Our review/monitoring process benchmarks your current portfolio versus your target portfolio as identified in your Investment Policy Statement (IPS). Our review process includes a daily review of all transactions affecting each account. On a monthly basis your accounts are reconciled on a value and cost basis method by electronic means between our portfolio accounting/management system and the broker records of our primary brokerage Schwab Advisor Services.

Account reviews are performed more frequently when market conditions dictate.

---

**Review Triggers**

Other conditions that may trigger a review are changes in the tax laws, new investment information, and changes in your own situation.

---

**Regular Reports**

On a quarterly basis you will receive a report from us we call Investment Review. This is in addition to the normal brokerage statements you will receive from the custodian (e.g. Schwab) for your accounts.

Your quarterly Investment Review normally includes the reports described below:



#### **FOR A QUICK SUMMARY**

**Portfolio Overview Snapshot (1 page 4 sections)** - this "birds-eye" single page is a snapshot of your portfolio including Asset Allocation By Asset Class (pie chart), Portfolio Value Vs Cumulative Net Investment (area chart), Components Of Change In Value (table), Portfolio And Benchmark Returns (pie chart and table).

#### **FOR A MORE COMPREHENSIVE ASSESSMENT, FULL PAGE VERSIONS**

**Asset Allocation By Asset Class (Pie Chart)** - this chart depicts your investments by Asset Class (color coded) as a percentage of your CONSOLIDATED portfolio. This chart visually identifies your CURRENT Asset Allocation (or mix) by %'s.

**Portfolio Value Vs Cumulative Net Investment (Area Chart)** - this chart provides a visual contrast in time (monthly) between your portfolio value (area) and your cumulative net investment (line) that is your starting capital increased by contributed funds/investments and/or decreased by withdrawn funds/investments. It tells you at a glance the portions of your portfolio value attributable to your contributions and that of accumulated investment returns.

**Performance Summary (Table)** - this tabular report uses various time periods based on the length of your client status with Beacon, and shows your portfolio's beginning value, ending value, and the individual components representing the difference. This report reveals both the \$ investment gain (or loss) and the % investment return\* (net of fees; \*TWR = Time Weighted Return). Alongside your historical performance are well-known benchmarks all investors recognize:

- Inflation – the Inflation comparison the investment policy goal of *"inflation plus X% return target"*.
- US Treasury Bills – the Treasury Bill comparison addresses *"How would I have done with the safest investment (i.e. 'in the bank', if you will)?"*
- Target Benchmark per IPS Risk Tolerance Profile – the Target Benchmark is a blended composite of major stock, bond, and cash asset classes and includes CONSERVATIVE, MODERATE, and AGGRESSIVE allocations [indexes are unmanaged, have no expenses or tax costs, and are not directly investable].
  - S&P 500 Stock Index – consists of the prices and dividends of 500 large US and multinational companies (weighted on the basis of market capitalization of the component companies).
  - Barclays Capital Aggregate Bond Index – consists of most U.S. traded investment grade bonds [fixed income] including Treasury securities, Government agency bonds, Mortgage-backed bonds, Corporate bonds, and Foreign bonds traded in U.S. **OR**
  - Barclays Capital Municipal Short/Intermediate – consists of short-to-intermediate term, investment grade, tax-exempt (municipal) bonds from issuers on a national level including states and local.
  - US Treasury 3-month Treasury Bill – proxy for safe "cash" returns.

**Asset Allocation: Actual vs. Target** - this dual pie-chart and table compares your ACTUAL Asset Allocation with your TARGET Asset Allocation. Your TARGET Asset Allocation is based upon your Investment Policy, namely your RETURN and RISK objectives and constraints. The report compares, by Asset Class, your Actual \$ and % with your Target \$ and % and also lists the dollar variance required in +/(-) to rebalance your portfolio.

**Portfolio Holdings by Account** - this report displays your individual securities per account, taxable and non-taxable, within your CONSOLIDATED portfolio. If you have multiple accounts, you will have multiple sections (each account will have a sub-total). This report lists the security name and symbol, % weight of portfolio, share quantity, total (tax) cost\* basis, current price, current value, and unrealized gain or loss of each individual security in each account. (\*Includes original cost and subsequent purchases and/or reinvestments, less sales). The Asset Class color codes match the Asset Allocation pie chart (above).

## Client Referrals and Other Compensation

---

**Here we explain that we do not pay or receive referral fees.**

---

### **Incoming Referrals**

BEACON has been fortunate to receive many client referrals over the years. The referrals came from current clients, estate planning attorneys, accountants, employees, personal friends of employees and other similar sources. The firm does not compensate referring parties for these referrals.

---

### **Referrals Out**

BEACON does not accept referral fees or any form of remuneration from other professionals when a prospect or client is referred to them.

---

### **Other Compensation**

BEACON does not receive any other monetary compensation from any third party aside from your fees for our services.

We receive an economic benefit from Schwab in the form of the support products and services it makes available to us and other independent investment advisors whose clients maintain their accounts at Schwab. These products and services, how they benefit us, and the related conflicts of interest are described above in **Brokerage Practices**. The availability to us of Schwab's products and services is not based on us giving particular investment advice to you, such as buying particular securities for you.

## Custody

---

**Here we explain that we are not a qualified custodian and normally do not have actual custody of your assets. We note the importance of your comparing the brokerage statements with any reports we provide you.**

---

### **Account Statements**

All your investments are held at qualified custodians like Schwab, which means the custodians provide account statements directly to you at your email or postal address of record at least quarterly and in most instances monthly. You should carefully review those statements promptly when you receive them.

Custodians like Schwab maintain actual custody of your assets. As noted above your custodian will send account statements to you. As noted below, you are urged to

compare your account statements received directly from your custodian to the quarterly Investment Review reports we provide to you. You may have authorized our quarterly advisory fees be debited (e.g. withdrawn) from your investment account. We provide you with a Fee-For-Service schedule that details the fee calculation. We are not required to provide our fee calculation to your custodian, and the custodian does not verify the accuracy of our advisory fee calculation.

---

### **Performance Reports**

You are urged to compare your account statements received directly from the custodians to the quarterly Investment Review reports provided by BEACON. Previously in **Review of Accounts/Regular Reports**, we described the reports we customarily provide in your quarterly Investment Review.

As a footnote on each page of your quarterly Investment Review we place the following legend as a reminder to you to compare/contrast:

***"Clients are urged to compare the custodians (Schwab Institutional et al) account statements with Beacons reports".***

---

### **Net Worth Statements**

We periodically provide many clients with net worth statements and net worth graphs that are generated from our client relationship management system. Net worth statements contain approximations of bank account balances provided by you, as well as the value of land and hard-to-price real estate. The net worth statements are used for long-term financial planning where the exact values of assets are not material to the financial planning tasks.

## **Investment Discretion**

---

**Here we explain that when you give us authority to manage securities in your account(s) we exercise this authority consistent with your investment policy we helped you prepare.**

---

### **Discretionary Authority for Trading**

As discussed previously in **Advisory Business/Asset Management**, you normally will place your assets in a brokerage account designated as a discretionary account in our favor.

BEACON accepts discretionary authority to manage securities accounts on your behalf. BEACON has the authority to determine, without obtaining your specific consent, the securities to be bought or sold, and the amount of the securities to be bought or sold. At anytime you may contact us if there are any changes in your

financial situation or investment objectives, or if you wish to impose, add, or modify any reasonable restrictions to our investment management services.

You approve the custodian to be used when you open your brokerage account(s). BEACON does not receive any portion of the transaction fees or commissions paid by you to the custodian on executed trades.

Discretionary trading authority facilitates placing trades in your accounts on your behalf so that we may promptly implement the investment policy that you have approved in writing.

As discussed previously in **Advisory Business/Asset Management**, there are instances when you could have a brokerage account designation as non-discretionary. In that case we do not have authority to buy or sell securities.

---

### **Limited Power of Attorney**

A limited power of attorney is a trading authorization for the purpose of authorizing us to have investment discretion. You sign a limited power of attorney so that we may execute the trades that you have approved. The limited power of attorney is part of the brokerage account application you open with the custodian.

## **Voting Client Securities**

---

**Here we describe our role in voting proxies for you in certain circumstances, and also those when you can vote your proxies.**

---

### **Proxy Votes**

A proxy basically is a designated person acting for you. Whether you own common stock (shares) of a company or shares in a mutual fund, there are times when you have the right to vote on matters put before shareholders. The matters can range from financial issues to social issues, or can be as straightforward as voting to ratify or not the board of directors, or the outside accounting firm or legal counsel, etc.

If you so designate on your brokerage application, BEACON votes proxies for securities over which it maintains discretionary authority consistent with our proxy voting policy. The brokerage application addresses proxy voting with language like "Issuer Communications and Related Actions."

If you do not designate for us to vote your proxy, that remains your duty. In this case the custodian will provide you with the proxy materials.

A free copy of BEACON's proxy voting policy is available upon request.

## Financial Information

---

[Here we disclose our general financial condition.](#)

---

### **Financial Condition**

BEACON does not have any financial impairment that will preclude the firm from meeting contractual commitments to you.

Regulations require we provide you with our balance sheet in certain circumstances. In our case, a balance sheet is not required to be provided because BEACON does not serve as a custodian for your funds or securities, and does not require prepayment of fees of more than \$1,200 per client six months or more in advance.

Neither BEACON nor any of our principals or employees has ever been the subject of a bankruptcy petition.

## Brochure Supplement (Part 2B of Form ADV)

---

### Education and Business Standards

BEACON requires that advisors in its employ have a bachelor's degree and further coursework demonstrating knowledge of financial planning and investment management. Examples of acceptable coursework include: an MBA, a CFP®, a CFA, etc. Additionally, advisors must have work experience that demonstrates their aptitude for financial planning and investment management.

---

### Professional Certifications

Employees have earned certifications and credentials that are required to be explained in further detail.

**Certified Financial Planner (CFP®):** Certified Financial Planners are licensed by the CFP Board to use the CFP mark. CFP certification requirements:

- + Bachelor's degree from an accredited college or university.
- + Completion of the financial planning education requirements set by the CFP Board ([www.cfp.net](http://www.cfp.net)).
- + Successful completion of the 10-hour CFP® Certification Exam.
- + Three-year qualifying full-time work experience.
- + Successfully pass the Candidate Fitness Standards and background check.



**Chartered Financial Analyst (CFA):** Chartered Financial Analysts are licensed by the CFA Institute to use the CFA mark. CFA certification requirements:

- + Hold a bachelor's degree from an accredited institution or have equivalent education or work experience.
- + Successful completion of all three sequential, six-hour exam levels of the CFA Program.
- + Have 48 months of acceptable professional work experience in the investment decision-making process.
- + Fulfill society requirements, which vary by society. Unless you are upgrading from affiliate membership, all societies require two sponsor statements as part of each application; these are submitted online by your sponsors.
- + Agree to adhere to and sign the Member's Agreement, a Professional Conduct Statement, and any additional documentation requested by CFA Institute ([www.cfainstitute.org](http://www.cfainstitute.org)).

**CFA Background:** The CFA charter is a globally respected, graduate-level investment credential established in 1962 and awarded by CFA Institute--the largest global association of investment professionals. There are currently about 90,000 CFA charterholders working in 135 countries.

**High Ethical Standards:** The CFA Institute Code of Ethics and Standards of Professional conduct, enforced through an active professional conduct program, require CFA charterholders to:

- ✚ Place their clients' interests ahead of their own
- ✚ Maintain independence and objectivity
- ✚ Act with integrity
- ✚ Maintain and improve their professional competence
- ✚ Disclose conflicts of interest and legal matters

**Global Recognition:** Passing the three CFA exams is a difficult feat that requires extensive study (successful candidates report spending an average of 300 hours of study per level). Earning the CFA charter demonstrates mastery of many of the advanced skills needed for investment analysis and decision making in today's quickly evolving global financial industry. As a result, employers and clients are increasingly seeking CFA charterholders--often making the charter a prerequisite for employment. Additionally, regulatory bodies in 19 countries recognize the CFA charter as a proxy for meeting certain licensing requirements, and more than 125 colleges and universities around the world have incorporated a majority of the CFA Program curriculum into their own finance courses.

**Comprehensive and Current Knowledge:** The CFA Program curriculum provides a comprehensive framework of knowledge for investment decision making and is firmly grounded in the knowledge and skills used every day in the investment profession. The three levels of the CFA Program test a proficiency with a wide range of fundamental and advanced investment topics, including ethical and professional standards, fixed-income and equity analysis, alternative and derivative investments, economics, financial reporting standards, portfolio management, and wealth planning.

The CFA Program curriculum is updated every year by experts from around the world to ensure that candidates learn the most relevant and practical new tools, ideas, and investment and wealth management skills to reflect the dynamic and complex nature of the profession. To learn more about the CFA charter, visit [www.cfainstitute.org](http://www.cfainstitute.org).



---

**ADVISORS:**

Note: BEACON uses a team-approach to manage your portfolios. Furthermore, we have an investment method that is applied consistently to all our clients' portfolios. Said another way, no advisor provides their own investment advice to you apart from the BEACON method.

---

**MARCEL J. HEBERT, CERTIFICATIONS****Educational Background:**

- ✚ Year of birth: 1957.
- ✚ Institutions (after high school):
  - ✚ 1975 - 1978: Louisiana State University. Baton Rouge, Louisiana.
  - ✚ 1978 - 1979: University of Southwestern Louisiana\*, Lafayette, Louisiana (\*now University of Louisiana at Lafayette).
  - ✚ Bachelors of Science, Finance.
  - ✚ 1983 - 1985: University of Southwestern Louisiana\*, Lafayette, Louisiana (\*now University of Louisiana at Lafayette).
  - ✚ Masters (MBA), Finance.
  - ✚ 1984 - 1986: Institute of Certified Financial Planners
  - ✚ Certified Financial Planner licensee (CFP®)
  - ✚ 1994 - 1996: CFA Institute
  - ✚ Chartered Financial Analyst (CFA) charterholder

**Business Experience (preceding 5 years):**

- ✚ 2006 - present: Beacon Financial Advisors, Ltd. (Houston, TX) principal and Chief Compliance Officer

**Disciplinary Information:**

- ✚ None.

**Other Business Activities:**

- ✚ None.

**Additional Compensation:**

- ✚ None.

**Supervision:**

- ✚ MARCEL J. HEBERT is BEACON'S senior PRINCIPAL and has no other SUPERVISOR.



---

## **JOSHUA J. HEBERT, CERTIFICATIONS**

### **Educational Background:**

- ✚ Date of birth: 1982.
- ✚ Institutions (after high school):
  - ✚ 2000 - 2004: Louisiana State University, Baton Rouge, Louisiana.
    - ✚ Bachelors of Science, Accounting.
  - ✚ 2007 - 2009: University of Houston, Houston, Texas.
    - ✚ Masters (MBA), Finance.
  - ✚ 2004 - 2005: Institute of Internal Auditors (IIA)
    - ✚ Certified Internal Auditor (CIA®)
  - ✚ 2010 - 2011: Certified Financial Planner Board of Standards, Inc.
    - ✚ St. Thomas University, Houston, Texas.
      - ✚ Certified Financial Planner licensee (CFP®)

### **Business Experience (preceding 5 years):**

- ✚ 2004 - 2007: Ernst & Young, LLP, (Houston, Texas) Auditor.
- ✚ 2007 - present: Beacon Financial Advisors, Ltd. (Houston, Texas) Associate Financial Advisor.

### **Disciplinary Information:**

- ✚ None.

### **Other Business Activities:**

- ✚ None.

### **Additional Compensation:**

- ✚ None.

### **Supervision:**

JOSHUA J. HEBERT is supervised by MARCEL J. HEBERT, CHIEF COMPLIANCE OFFICER. He reviews JOSHUA'S work through frequent office interactions as well as remote interactions. He also reviews JOSHUA'S activities through our client relationship management system.

#### **SUPERVISOR'S contact information:**

713.622.9981    marcel@bfaltd.com