BEACON CAPITAL MANAGEMENT℠
A Sammons Financial Company

EMOTIONAL INVESTING

HOW TO LIMIT LOSSES FROM EXTREME MARKET VOLATILITY?

KEY POINTS | STRATEGY

Beacon Capital Management created Vantage 2.0 portfolios with the goal of minimizing losses and maximizing growth opportunities, attempting to deliver consistent returns for investors—*during any market condition*. With volatility becoming the new normal for the market, average investors can significantly underperform in all major asset classes over the long-term due largely to emotionally led investment decisions, or triggers, working against them.

WHEN TO GET OUT

Positive emotions and non-mechanical investment methods keep investors **in** markets typically too long, as shown in the most recent financial bubble, with the largest market sell-off occurring near the bottom of the market[1]. However, with a non-emotional mechanical method to **get out of the market** when data indicates, investors are better positioned to avoid potential catastrophic losses.

MECHANICAL STOP-LOSS

Vantage 2.0 Portfolios, equipped with a mechanical stop-loss strategy, automatically withdraws investors from equity positions when the benchmark index drops by a predetermined amount. This works to help minimize losses during times of extreme volatility. Similar duration management triggers are in place to limit extreme interest rate volatility on fixed-income investments.

VOLATILITY DRIVES INVESTORS

[1] Source: Investment Company Institute and Standard and Poor's, December 2012. Data: Net new cash flows are measured by the rolling 6-month net cash flows of domestic mutual funds.

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WHEN DO YOU REENTER THE MARKET TO AVOID MISSING REBOUND GROWTH OPPORTUNITY?

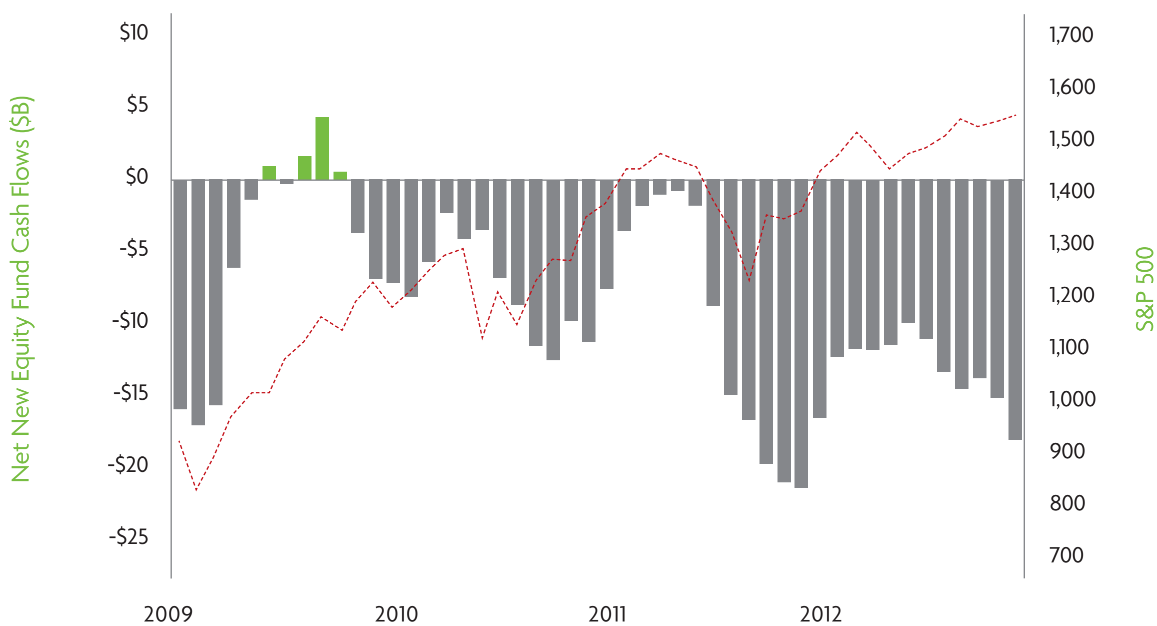
WHEN TO GET BACK IN

Negative emotions and non-mechanical methods can also **keep investors out** of the markets too long, as is evidenced by fund flow reports from the Investment Company Institute. Waiting in cash on the sidelines anticipating when to get back in can wipe out the most significant gain opportunities the market provides during a rebound.

In the most recent bubble, many investors continued to stay out of the market despite the market rebound. From 2009-2012 there were negative outflows for US Equity Funds compared to the S&P gains of 26.46, 15.06, 2.11 and 16.00% respectively. By late 2011, the market had gained nearly 80% since March 2009, yet equity fund outflows continued and actually accelerated slightly in 2012[1].

MECHANICAL BUYBACK

By using a non-emotional mechanical method to get back into the market, investors can work to avoid the completely missed opportunity of a rebound. Having a non-emotional mechanical trigger to get back into the market is just as important as having a non-emotional mechanical trigger to get out of the market. Rather than anticipating every uptick, Beacon's mechanical buyback strategy is structured to help eliminate emotional factors and avoid being too quick or too long on the trigger to reenter the market.



[1] Source: Investment Company Institute and Standard and Poor's, December 2012. Data: Net new cash flows are measured by the rolling 6-month net cash flows of domestic mutual funds.