

Fourth Quarter 2008 Market Commentary and Outlook

Are we in a deflationary spiral like that last seen in the 1930's? With the benchmark S&P 500 index down 37% in 2008, has the market discounted all the bad news? With corporate bond spreads at levels not seen since the Great Depression, is this a sign of coming defaults? Will dramatic inflation result from the fiscal and monetary stimulus that governments around the world are injecting into the financial system? Will the U.S. dollar retain its preeminent status as the global reserve currency? These are a few of the major questions that the markets and we are pondering at this time. These are historic and extremely complex times in global financial markets. In this quarterly letter, we will explain how Beaumont Financial Partners is positioning your accounts to deal with all this uncertainty. In addition, we will identify where we see pockets of opportunity that have developed in a variety of asset classes and discuss how we are opportunistically positioning your assets for long-term returns.

In general, we feel that the unprecedented actions recently taken by the Federal Reserve, U.S. Treasury and incoming Obama administration are near-term constructive in the context of preventing the current financial crisis from deteriorating into an economic malaise like that last seen in the Great Depression. That said, we find ourselves stuck in an ongoing recession that will represent the most serious challenge for the U.S. economy since World War II. In this environment, Beaumont's asset allocations remain conservative and principal protection remains the highest priority on the list of our investment objectives.

Risk Aversion Off the Charts:

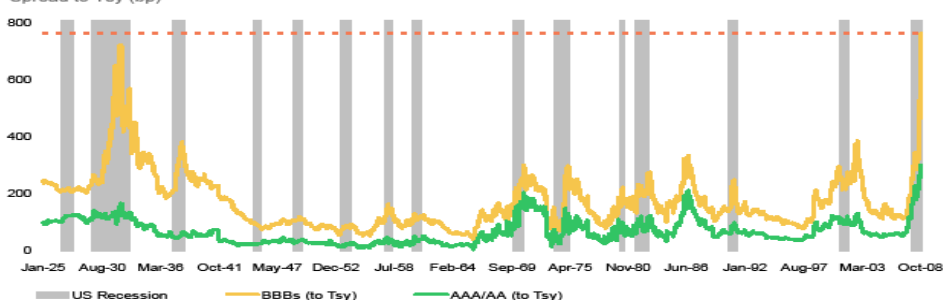
Fixed income markets, which are measured in spreads (the difference between the yield on government and corporate bonds), are discounting default rates not seen since the Great Depression. Is this an opportunity or a canary in a coal mine? To put some perspective on how negative the market psychology has become, Don Coxe, a BMO Nesbitt Burns strategist, put it this way, "with the

Worse than the Great Depression?

BBB corporates offer a real, default adjusted yield above 9% - compelling relative to the long term real return on stocks (6.8%) or government bonds (1.2%)

Credit Spreads at a Hundred-Year Extreme

Spread to Tsy (bp)



Source: Moody's, Yield Book, NBER, Morgan Stanley Research

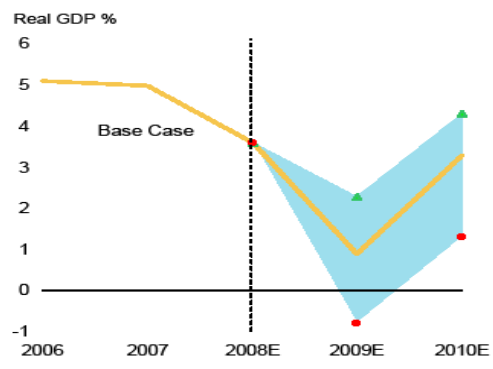
30 year Treasury yielding only 2.8%, investors are discounting a deflationary spiral that will last over thirty years. If correct, this prediction would represent a period ten times longer than that of the Great Depression of the 1930's."

2009 - Globally a Growth Recession, Much Worse in the U.S.

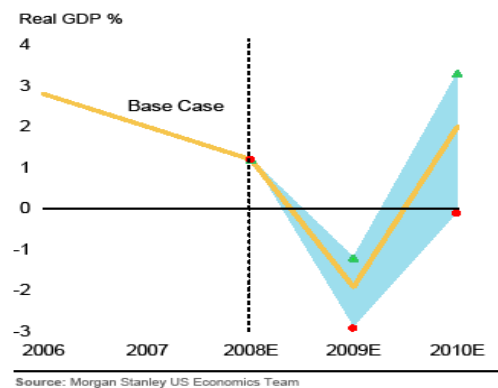
Consensus thinking is that we will experience a global growth recession in 2009 with growth slowing to 1%. The U.S., however, will most likely see GDP decline. David Rosenberg, a Merrill Lynch economist put it this way, "This is no ordinary recession. In the typical recession of the post WWII era, the worst quarter in terms of rate of decline is normally the second or third quarter. This time around, the recession is already 5 quarters old and we haven't even seen the worse one just yet. Moreover, in the recessions that defined the post WWII era, inventory corrections accounted for 80% of the slide in real GDP. These were inventory cycles. This recession is a balance-sheet cycle, with the assets and the liabilities of the household balance sheet contracting for the first time – this is deleveraging, which entails asset liquidation, debt repayment and rising personal savings rate".

Sharp Cuts to the Global Growth Outlook – Risks to the Downside Remain

Global Economy



US



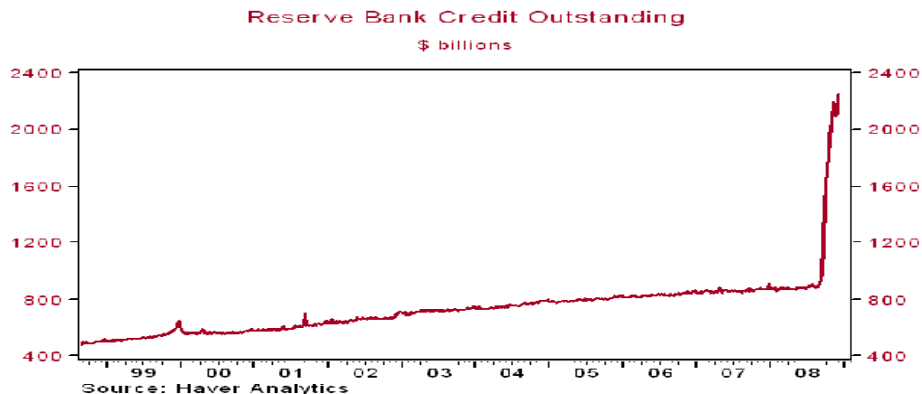
Morgan Stanley

Please see additional important disclosures at the end of this report. 5

What is the Fed Doing? - Quantitative Easing "The Fed is Printing Money"

Comments issued following the December 16th Federal Reserve meeting combined with the chart on the following page highlight the dramatic expansion of the Federal Reserve Balance sheet that is taking place. Essentially the Fed, Treasury, and now the new Obama administration are pulling out all the stops with what seems to be unlimited injections of liquidity. *"The focus of the Committee's policy going forward will be to support the functioning of financial markets and stimulate the economy through open market operations and other measures that sustain the size of the Federal Reserve's balance sheet at a high level. As previously announced, over the next few quarters, the Federal Reserve will purchase large quantities of agency debt and mortgage-backed securities to provide support to the mortgage and housing markets, and it stands ready to expand its purchases of agency debt and mortgage-backed securities as conditions warrant. The Committee is also evaluating the potential benefits of purchasing longer-term Treasury securities. Early next year, the Federal Reserve will also implement the Term Asset-Backed Securities Loan Facility to facilitate the extension of credit to households and small*

businesses. The Federal Reserve will continue to consider ways of using its balance sheet to further support credit markets and economic activity.



BFP Current Asset Allocation and Positioning

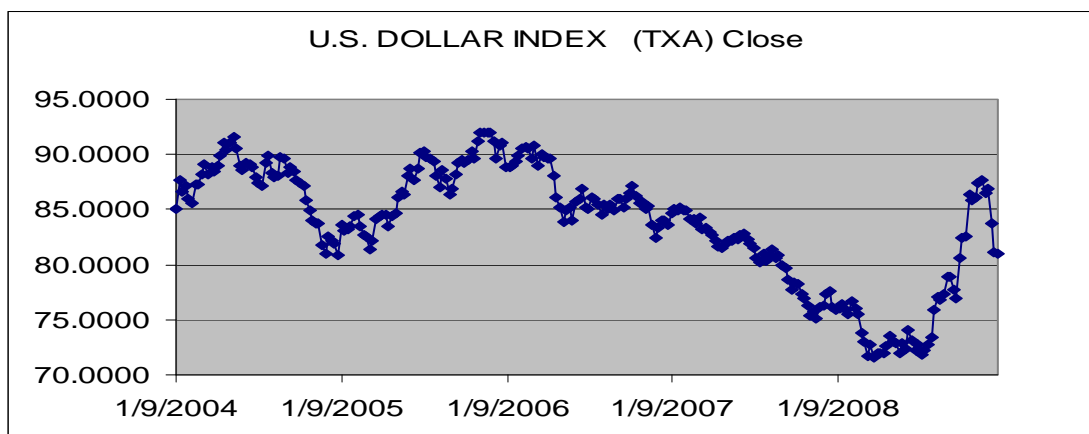
With all of this as a back drop, capital preservation continues to be Beaumont Financial Partners' highest priority. Hence, most client accounts currently maintain 25% or better cash balances depending upon their risk profile. That being said, with the dramatic decline in short term rates (orchestrated by the Federal Reserve), we have recently taken advantage of the historic spreads (outlined above) on corporate bonds and purchased high quality, short-term maturity corporate bonds yielding between 5-7% for many accounts. This income generating strategy, while not risk-free, is an attempt to generate additional income in an extraordinarily low rate environment. By staying short in maturity, we have accomplished two goals. First, we have not assumed much in the way of interest rate risk (that being the risk of holding a fixed income instrument while rates are going up); and second, we have assumed limited credit risk by keeping the debt short-term and in high quality companies. These additions support our high level of risk aversion and desire for principal protection as we are purchasing debt and not equity instruments. In accounts where appropriate, we have taken advantage of the late November market lows to repurchase high quality companies like GE, which we tax loss sold in late September at significantly higher prices. In addition, during the quarter, we opportunistically added in the "tortoise space" to high quality, well managed equities including United Technologies and Parker Hannifin. Both of these firms should be well positioned to benefit from the massive infrastructure spending being orchestrated by governments around the globe to counter the effects of their slowing economies. In developed and developing countries including Spain and China, rapid increases in unemployment have lead to significant social unrest and, as a result, rapid response by politicians.

Secular Themes in Place, Yet Delayed by Cyclical Slowdown.

Non-Dollar Exposure

In our last quarterly letter, we analyzed the temporary technical strengthening in the U.S. dollar relative to other currencies and the resulting negative impact that this had on our second half results. Dramatic impacts were felt across many asset classes that Beaumont had exposure to including energy, gold, and industrial commodities. Recently this temporary flight to safety and flight to deleverage (driven by the desire of investors to pay off dollar denominated liabilities) has started to reverse as one can see clearly in the chart on the following page. We continue to feel the late Q4 rally only represents a temporary interruption of the multi-year slide of the dollar. Important near and long-term signals that we take away from this recent reversal of the dollar strength include a near-term moderation in the extreme risk aversion that developed in November. Governments around the world have stepped in to provide liquidity to replace the private sources that have disappeared. The good

news is that this will insure that the global commerce machine will continue to function. The bad news is that the actions taken by the U.S. Government and others to prevent a worsening global melt down will only make the excess leverage situation worse. As noted above in the case of the U.S., the Fed is printing money to finance a catalog of efforts being undertaken by the government. This is analogous to giving an alcoholic another drink to take the edge off. In the long run, it only makes the problem worse. With this in mind, our asset allocations continue to maintain exposure to non-dollar denominated assets and U.S. companies with significant overseas (i.e. non-dollar based) profits. This will likely help our portfolios offset the continued eroding effects of the massive U.S. dollar creation.



Commodities

While much of the near term deleveraging trends that are taking place are deflationary and have put dramatic downside pressure on commodities and real assets across the board, the near term solution to this global slow down has already been announced. Globally, governments will spend and borrow, and, when there is no appetite from private entities to finance these efforts, central banks will print money. While the private sector around the world is pulling back spending efforts, governments are moving quickly to fill the void. Governments will buy raw materials and employ companies to build capital infrastructure including roads and bridges. After the initial inventory destocking that takes place, this global procurement process will be very bullish for the commodity and infrastructure sector.

Gold & Precious Metals

In the past, we have described gold as “no one’s liability”, the implication being that all paper or fiat currencies will continue to feel pressure from the continued decline in the underlying fundamentals and interest rates. Gold has always been, and again will provide an excellent store of wealth plus a great hedge against policy missteps. As every country scrambles for self-preservation in what we are calling a “race to the bottom” (a bottom in interest rates and hence in currency valuation) in a series of competitive currency devaluations, gold should provide an oasis. In risk appropriate accounts, we continue to maintain exposure to a combination of gold equities and ETFs which own the physical metal. Longer term, we see gold’s inflationary hedge characteristic returning, especially as we anticipate the resumption of the dollar decline, which will create significant upside pressure on import prices domestically.

Summary

While as a whole, Beaumont Financial Partners delivered solid relative performance, 2008 can only be described as disappointing. Essentially, other than cash, U.S. Treasuries, and physical gold, there was no asset class left unscathed. Global markets were down 30-50%, and U.S. markets had their worst year since 1931 when the S&P 500 was down 41% and the Dow Jones Industrial Average was down

50%. The market appears to have discounted many of the significant economic challenges that lie ahead, and we will be reading about these realities in the early months of 2009 (much higher unemployment, negative GDP and several corporate bankruptcies). However, the challenge for 2009 will be to remember that the market is a discounting mechanism. Throughout the year, we will need to assess the accuracy of the market's perspective and opportunistically reallocate the cash that we have accumulated when we see the market over react to the challenging headlines. While we know that significant challenges lie ahead, we at Beaumont look forward to guiding you through another year and, as always, we thank you for your trust and confidence.

If you have any questions or comments please contact us at 781-237-7170 or e-mail me at

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