



LIGHTHOUSE FINANCIAL, LLC

News and Views

1st Quarter 2010

Hindsight

The first quarter of 2010 ended in a mixed mode. U.S. equities began the year moving up, reversed in mid-January and reversed again ending up at the end of March. The DOW was up approximately 2 ½ %, the S&P500 was up 3% and the NASDAQ was up a little over 5%. Meanwhile Europe (EU) was down almost 6%, gold was flat (up slightly over 1%) and the ten-year treasury remained unchanged at 3.83%.

Our Dynamic portfolios began the year in a defensive mode with over 50% cash and were mostly fully invested by the end of March. We invested in three equity positions; core U.S. equity, U.S. small and micro-cap stocks and international small-cap stocks.

The majority of our investments remain focused on assets that generate income: a municipal bond piece in taxable accounts generating approximately 4 ½% income, a managed bond fund generating a 4% yield, an individual bond component generating in excess of 4% (this is currently selling at a premium and will likely be repositioned in the coming quarter), a high yield bond fund generating in excess of 8% cash flow, a preferred stock position with a dividend in excess of 6%, an international preferred stock and convertible bond fund with a dividend in excess of 6% and an international preferred stock REIT fund with some high yield bonds and some master limited partnerships in oil that generates a dividend in excess of 10%. We call our current asset allocation a “defensive/offensive” approach.

While there are glimmers of an improving economy, there remain many unsettling issues that create stress in the markets: the debt crisis in Europe, high unemployment, record deficits, increasing taxes,

political unrest and the passage of national healthcare with an approval of less than 50% of the population. In our opinion, this kind of economic and popular outlook does not create a solid foundation for a strong sustained market recovery.

Foresight

The operative words for this type of market are; diversity, flexibility, vigilance and patience. In our opinion this is not the time to be concentrated in any one asset (with the exception of cash when we are stopped out of investments) which is why we have as many as ten positions in some of our portfolios. (Diversify)

We continue to monitor and review our holdings and various investments frequently and are willing to make changes when we see opportunities or assets that are underperforming. Currently we are replacing one Senior Subordinated Note fund with a similar fund managed by another fund group. We are also reviewing our positions in a managed equities fund and may make a change in the near future. (Flexibility)

While we are currently making money in our portfolios, we have concerns about the sustainability of an upward trend in the markets. Our stops remain in place and we will move to cash if a downward trend develops. (Vigilance)

Our best guess is the markets will remain in a sideways trading range until they break out on the upside with good news or trend down with more bad news. This is why we are currently over weighted in assets that produce income. Assuming the market moves sideways for a period of time with no appreciable increase or decrease in net asset value we will at least capture the income generated from various investments. (Patience)

Did you know

- 1) For more than two decades Social Security collected billions more in payroll taxes than it paid out in benefits. These excess funds were “invested” in zero coupon government bonds to be used to offset the shortfall in revenue when benefits paid exceeded revenue generated. In reality the extra billions “invested” were spent on the day to day operations of our government. Just a few short years ago the Social Security surplus was projected to last until 2017. This year it is projected to pay out billions more in benefits than will be collected in taxes. Our government will have to borrow more money (on top of a record deficit) to cover the shortfall. Question: Who is going to buy our treasuries to finance this additional debt?
- 2) This is the first year in over thirty years that no cost of living increase is being paid to Social Security recipients. (source Social Security administration)
- 3) You can go to www.usdebtclock.org and see in real time the various types and amounts of debt we are piling up. Staggering. Scary.
- 4) A proposal to create an 18 member commission to tackle the problem of our growing federal deficit was defeated in the Senate 53-46 on 1/26/2010. (source Senate)
- 5) The U.S. economy shrunk by 2.4% in 2009. China’s economy grew by 8.7% in 2009. (source U.S. Commerce dept)
- 6) The state of Oregon voted on 1/26/2010 to raise personal income taxes RETROACTIVE to tax year 2009. The marginal tax rate will rise from 9% to 10.8% at \$250,000 of taxable income. (source Oregon state legislature)
- 7) 2001 was the last year our government had a surplus. Actual tax receipts were 2 trillion and disbursements were 1.9 trillion with a 128 billion surplus. (source the White house)
- 8) The average annual return for the S&P 500 for the past 25 years (1985-2009) is 10.5%. If you missed the 25 best days in the market your average annual return falls to 4.4%. (source BTN research)
- 9) The average annual return for the S&P 500 for the past 25 years (1985-2009) is 10.5%. If you missed the 25 worst days in the market your average annual return rises to 18.8%. (source BTN research) This is why we put managing risk ahead of managing return.
- 10) The 10 largest stocks in the S&P 500 made up 19% of the total index as of 12/31/2009. Thus 2% of the stocks in the index had 19% of the total value. The S&P 500 is a market cap weighted index. (source S&P 500)

Once again we want to thank you for the opportunity to be of service. We recognize that without you there would be no Lighthouse Financial, LLC. We will continue to do our best to make your investment experience profitable and boring so that you can find your excitement in other places and other ways

Material discussed herewith is meant for general illustration and/ or informational purposes only, please note that individual situations can vary. Therefore, the information should be relied upon when coordinated with individual professional advice. The views expressed are not necessarily the opinion of Cambridge Investment Research, Inc. and should not be construed directly or indirectly, as an offer to buy or sell any securities mentioned herein.

ESTATE TAX UPDATE WORKSHOP

You are invited to a complimentary Estate Planning-Elder Law workshop presented by, Bradley J. Frigon, Attorney at Law.

Please contact Ramona for details and to reserve your seat. Come and bring a friend. RSVP by May 17.

May 20 ~ 6:30-8 pm
360 Interlocken Blvd., Suite 101
Broomfield, CO 80021

May 25 ~ 1-2:30 pm
3773 Cherry Creek North Drive, Suite 290
Denver, CO 80209

If you would like a copy of our current form ADV Disclosure document and Privacy Statement, please call Ramona Wilber at 303-444-1818 extension 110.



In 1983, a group of experienced professionals who believe in the power of planning to effect positive change created what became Lighthouse Financial, LLC in 1999.

As professionals, we are dedicated to bringing the benefits of financial planning and management to our clients. Our individual planners bring each client highly personalized attention, and the kind of strong support and stability that can only come from a team of dedicated professionals.

Doing Business:

Who to contact when you need assistance:

To schedule a quarterly, special meetings, general information

Ramona Wilber Ext. 110
ramonaw@lighthousefinancial.biz

Account information, checks, address changes

Monica Rae Ext. 116
mrae@lighthousefinancial.biz

Trading, investments, taxes, general information

Michael Frie Ext. 113
mfrie@lighthousefinancial.biz

Contact:

LIGHTHOUSE FINANCIAL,
LLC

360 Interlocken Blvd, Suite 101,
Broomfield, CO 80021

(303) 444-1818 office
(303) 444-1852 fax

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“Estate Tax Update”

Learn about the latest changes in the law and how the new estate tax rules may impact your existing will or trust.

Presented by Bradley J. Frigon, Attorney at Law

“Do you have aging parents that may need nursing home care and do you have questions about how to pay for your own LTC? Do you have a child with financial problems or a disability? Do you have questions about asset protection trusts and special needs trusts?”

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ramonaw@lighthousefinancial.biz or
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