



# LIGHTHOUSE FINANCIAL, LLC

## *News and Views*

2<sup>nd</sup> Quarter 2010

### *Hindsight*

The second quarter ended down, down for the various stock markets, down for several bond markets and down for our Dynamic and Strategic portfolios.

The S&P 500 was off over 12%. The NASDAQ was down right at 12%. The yield on ten-year treasuries dropped almost one percent. The European market (EFA) lost over 18%. Our portfolios produced returns ranging from slightly over 2% to some with negative returns slightly less than 6% depending on the model.

The only bright spot was Gold (GLD) which was up slightly more than 11%. We have a gold position in very few of our portfolios. You might ask why, which is a good question. Our concern about gold at this point is that it may have reached a manic stage. We define that as a situation where you cannot get away from people promoting Gold, on the radio, on TV, in magazines and newspapers. There are advertisements for buying your “old or unwanted” Gold. In many ways it reminds us of the tech bubble of the late 1990’s when new companies were coming to market with a business plan that projected no profits and their stock was increasing in value many fold on the speculation that some day they would make money. Today our concern with Gold is that the price seems to be driven more by fear than fundamentals. Since June 30<sup>th</sup>, Gold is down almost 5%. This is not to say we won’t own Gold in the future, but we are currently in a *watch and wait* mode.

On May 25<sup>th</sup> we purchased two short positions (SDS and EPV) which shorted the S&P 500 and the European (EFA) stock market. Both of these positions were a 5% holding in some of our portfolios and were leveraged two to one. We ended up getting stopped out of both positions at a loss.

You might be asking how that could happen since short positions are supposed to go up when the market goes down and both the S&P 500 and EFA went down. The reason has to do with the volatility of the market and of these types of investments. (We bought SDS at \$36.84 on May 25<sup>th</sup>, two days later it was trading at \$32.27- down 12%, in the next two trading days it was back up to \$35.54- up 10%, then two days later it was back down to \$33.41- down 6% and two trading days later it was back up to \$36.71 almost what we bought it at. We ended up getting stopped out at \$32.27 on June 16<sup>th</sup> at a little over 12% loss. This translated into a little over a one half of one percent loss for the total portfolio. We had a similar experience with EPV in shorting the European stock market. The total impact was a little over a 1% loss for both shorts in portfolios that held these two assets.) This was painful for all of us. We are reviewing how and when we will use short positions in our portfolios in the future.

The remaining assets in the portfolios are all income- generating types of assets. Looking at these assets from January through the end of June, they are holding up well compared to the equity markets with many of them generating positive returns (albeit small ones in the case of a few of the holdings). We currently have cash positions in all of our models. You might be wondering why we would do that since money market funds are paying essentially zero percent returns currently. The primary reasons we are holding cash are: (1) to have funds available to purchase an asset that begins to perform well and (2) to not lose money. There are times when simply not losing money by staying in cash is the prudent thing to do.

## *Foresight*

We are generally optimistic, as we believe most people are. The challenge is, how do we put a positive spin on the current situation? Let's get the negative perspective out of the way first:

- ❖ There is a general malaise about the condition of our country and the economy
- ❖ Unemployment and underemployment is showing little positive news
- ❖ Corporate earnings are mixed. Some companies are showing improvement but few, if any, are back to the level of gross revenue pre-2008
- ❖ Government spending is at record levels.
- ❖ Several European countries have seen their government paper downgraded - some to junk bond levels
- ❖ The gulf oil fiasco and its handling by BP and the government
- ❖ Passage of a national healthcare bill that over 50% of the public did not want in it's current form
- ❖ Looming tax increases at the federal, state and local levels
- ❖ Several states in financial crisis unable to deal with their fiscal situations, with California in the most prominent light
- ❖ The illegal immigrant issue
- ❖ The wars in Iraq and Afghanistan
- ❖ Record numbers of home foreclosures with more to come, creating a housing glut, depressed home prices and more strain on the financial markets
- ❖ Did you know that the government has purchased over one trillion dollars of toxic mortgages?

There's more of this kind of news, but that's enough for now.

Now for the positive news:

- ❖ Some companies are making money
- ❖ A few companies are actually hiring - albeit at a much slower pace - but at least some people are finding jobs
- ❖ It looks like the BP oil well spill might be stopped or slowed substantially
- ❖ General Petraeus is now in charge in Afghanistan; perhaps he can accomplish results comparable to those accomplished in Iraq
- ❖ Several corporations have very healthy balance sheets and are sitting on large sums of cash waiting for the economy to turn and begin expanding
- ❖ Some form of banking reform was passed which might prevent some of the abuses that got us into this financial crisis in the first place
- ❖ At least we are adding jobs (not near enough) rather than continuing to lose jobs.

Mid-term elections will be held in less than 120 days. Please be sure to exercise your privilege to vote; there are many people in this world who do not have that option. Many brave men and women have paid the ultimate price for our freedom.

In summary, the operative words are *volatility* and *defense*. We have seen, and we expect you will see for the foreseeable future, fluctuations in the market, by the day (hopefully not by the minute like the 1,000 point drop earlier in the year), by the week, by the month, for who knows how long. Our portfolios are positioned in more defensive, income-generating types of assets. We expect this to change when interest rates start moving up, which could be a signal of inflation.

We want to thank you for the opportunity to be of service and value the confidence you have placed in us. We recognize these are challenging times and appreciate your patience in staying the course. This, too, shall pass.

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.

*If you had asked people  
what they wanted,  
they would have said,  
faster horses.*

Henry Ford

*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 help with:**

**To schedule a quarterly, special meetings, general information**

**Ramona Wilber** Ext. 110  
[ramonaw@lighthousefinancial.biz](mailto:ramonaw@lighthousefinancial.biz)

**Account information, checks, address changes**

**Monica Rae** Ext. 116  
[mrae@lighthousefinancial.biz](mailto:mrae@lighthousefinancial.biz)

**Trading, investments, taxes, general information**

**Michael Frie** Ext. 113  
[mfrie@lighthousefinancial.biz](mailto:mfrie@lighthousefinancial.biz)

***Contact:***

**LIGHTHOUSE FINANCIAL,  
LLC**

360 Interlocken Blvd, Suite 101,  
Broomfield, CO 80021

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

Registered Representative, Securities offered through Cambridge Investment Research, Inc., a Broker/Dealer, Member FINRA/SIPC. Investment Advisor Representative, Lighthouse Financial, LLC a Registered Investment Advisor. Lighthouse Financial, LLC & Cambridge are not affiliated.