



LIGHTHOUSE FINANCIAL, LLC

News and Views

4th Quarter 2009

Hindsight

2009. What a crazy year!

The S&P 500 started the year at 932, dropped to 683 in March (-27%) and closed the year at 1128 (up 21% for the year and 65% from the March low). The NASDAQ closed the year at 2291 (up 40% from January and up 60% from the March low). EFA (Europe) closed at \$55.81 (up 27% from January and up 77% from the March low of \$31.61). Gold (GLD) opened at \$86.23, rose to \$115.06 in November and closed at \$108.55 (up 26%). The Ten Year Treasury had a yield of 2.42% in January that increased to 3.48% in December.

All of these returns should have left people feeling pretty good. However, looking back to January 2008 for those investors who remained fully invested in the market for the past **two years** tells a different story. The S&P 500 was at 1412 in January 2008 and at the close in December 2009 it was still down 20%. The NASDAQ was at 2505 at the beginning of 2008 and is down 9% for the two year period. EFA was at \$73.37 in January 2008 and is down an uncomfortable 24% by December 2009. Gold was up 28% from January 2008 to December 2009. Ten Year Treasuries were essentially flat; beginning 2008 with a yield of 3.85% and closing in December 2009 with a yield of 3.84%. While the principal is guaranteed in Treasuries the yield is so low that one million dollars in Ten Year Treasuries would produce an annual income of only \$38,500.

Some buy and hold investors ended the year feeling like they dodged a bullet by recovering a large portion of their investments but wondering what they need to do differently going forward as the last ten years of investing for many is being called "The Lost Decade" having made little or no return on their investments.

Last year was a good year for our actively managed Dynamic accounts with positive returns for clients who had their funds invested the entire year. We hope they are pleased; especially after they compare their 2008 and 2009 returns combined relative to what happened in the market. Over the two year period we employed both a defensive and offensive strategy.

The Dynamic Strategy 2009?

All of the bond positions worked very well in 2009 with several of them returning double digit returns. We made a nice return on our international equity ETF (EEM) ranging from eight to sixteen percent depending on when it was purchased. We were stopped out of a couple of US equity positions at a small profit. We were whipsawed in gold, natural gas and the Australian dollar buying at a higher price than what they were sold for. Because of the tight stops we had on these assets the net loss was in the vicinity of 2% for most portfolios which was offset by profits in other investments. These assets were held for a very short period of time (less than a month). We carried over two equity positions into 2010 (DIA and PPSAX) both of which have continued to perform well.

Looking in the rear view mirror (things always seem clearer that way) we might have added more equity positions in 2009 as there was a broad increase in the equity markets after mid March. We were content to be over weighted in bonds as they were also performing well and generally are more defensive investments than stocks. Gold was a real conundrum as it started the year in the 80's and traded sideways from February to September in the 90's. It started climbing in early September, we purchased it in November around \$114; it climbed to slightly over \$119 and started to decline in early December where we were stopped out at around \$107 on December 14th. It fell to \$106 and closed the year around \$107. 2009 was a year that we would characterize as one of "less bad news" that drove several investments (especially equities) higher than they might have been otherwise. Profits that were generated in several companies came as a result of severe cost cutting (layoffs) rather than top line increasing revenues. This often does not bode well for sustained long term increases in profits and stock prices.

Overall we were pretty happy with the results in for the year; especially after a very defensive 2008 where our focus was avoiding the kinds of losses associated with the stock markets.

Foresight

What do we see on the horizon for 2010?

First, our crystal ball is about the size of a marble and only has a few clear spots in it.

These are the things we think we know: (1) There will be assets that go up at times, just lay there and go nowhere at times and go down at times. (2) Bonds will not perform as well in 2010 as they did in 2009. (3) This year will most likely not be as good as last year.

These are some of the challenges we will most likely face this year: (1) Identifying those assets that are going up and adding them to portfolios in a timely manner (2) Selling those assets that are going down before they drop too far (3) Being patient when nothing is making money (4) Figuring out a way to manage our trading costs (We currently are paying all the trading costs in Dynamic accounts. These costs have exceeded \$100,000 annually for several years. In a volatile market we could experience an increased number of transactions and a corresponding increase in trading costs.)

These are some of the concerns that we think may impact the markets in a negative way: (1) The current Congress is spending our country into poverty. And, they project even larger deficits annually for the next decade. This is not a problem that can be solved by taxing the rich. If all personal earnings above \$250,000 were taxed at 100% it would not balance the budget. Currently 43% of people either working or receiving government payments pay no personal income tax. Another 17% pay approximately 5% personal income tax. Any tax increases that put a significant dent in our annual deficit will be borne on the backs of more people than we are told in both direct and indirect taxes. No government in history has ever borrowed or taxed its way to prosperity. (2) Unemployment and underemployment remains high (estimated at over 16%) and will likely not drop substantially in the near future. This means more people will have less to spend. Remember, almost 70% of our economy is driven by consumer spending. (3) Companies of all sizes have cut expenses about as much as they can. To create higher profits companies need to grow their top line revenue. This will be challenging for most companies.

(4) Eventually government entities will be forced to cut services. It is estimated over forty states (which require balanced budgets) will have deficits this year. Many are running out of creative accounting ideas to "balance" their budgets. Some have already increased taxes. Some have already cut services.

This could happen at the federal level, but will most likely be put off another day. (5) Other parts of the world have larger financial problems than we do (most of Europe, Japan, Russia, most of South America, most of Asia and Africa to name a few). (6) Terrorism

These are some of the tools we employ to manage risk and potentially capitalize on to make money: (1) a defined process and rules as to what to buy and when to sell assets (2) long funds that make money in an up market (3) short funds that make money in a down market (4) commodity funds (5) currency funds (6) debt instruments.

In a perfect market environment we would like to own assets in four quadrants; equities, currencies, commodities and debt. It often does not work out that way as we strive to buy assets that are increasing in value and not all assets increase in value at the same time. We have also seen that in a declining market it can get to a situation where all assets will decrease in value at the same time. Trying to build portfolios that have non-correlated assets as a way to manage risk simply does not work as well as it might have worked in the past. Another goal is to own some assets that produce income (bonds, notes, dividend paying stocks, REITs etc.).

These are a few things, places and events to watch which may have a positive or negative impact on the financial markets in 2010: (1) interest rates (2) jobs data (3) elections (4) terrorist events (5) the weather (6) real estate foreclosures- residential and commercial (7) more government stimulus (8) more government bailouts (9) energy prices (10) California (11) New York (12) Japan

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

2010 ~What might it look like?

Before we get into our “best guess,” let us remind you that we do not manage assets based on what we think might happen. We manage assets based on what is actually happening. Forecasting to us is simply our collective thoughts based upon our research (a compilation of several outside sources and what other people think the markets might do) as to what areas in the various markets we want to focus our attention on for the moment. Since things are so dynamic and change at such a rapid pace; what might make sense today may not make sense next week or next month. We believe the government will continue to pump incredible sums of money into any number of people, places and things in an effort to get the economy growing. Their approach in many instances is more like trying to put out brush fires in the middle of a giant forest fire focusing on specific problems (banks, car companies, construction etc.) rather than solving the systemic problems.

We believe unemployment/underemployment will continue to be a very large problem.

We believe companies will not make as much profit in a macro sense but there will be individual companies that will do very well.

We believe there will be better opportunities to make money in the international markets than in the US market.

We believe the government will not solve the problem of egregious “bonuses” being paid to people who are taking outsized risks at taxpayer expense.

We believe there will be periods where investments will offer little opportunity to make money.

We believe the volatility of the markets will continue at higher levels than normal.

We believe the bond markets as a whole will not offer the kinds of double digit returns we saw in 2009.

We believe this is an environment where we need to be paying very close attention to investments and be willing to buy or sell quickly. This is not a buy and hold “don’t worry about it” in the long run everything will be OK investment environment.

We don’t want to invest in anything in our clients portfolios that we can’t sell with a phone call.

We believe we will have opportunities during the year to make money, but we need to be patient and take advantage of those situations as they arise.

We believe this is not the time to be greedy and invest in high risk speculative investments.

In short, we believe things will work out OK over the course of the year. We didn’t say it will be easy. We didn’t say we will make outrageous sums of money. We plan on sticking to our successful processes and procedures that have served our clients well over the years.

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Thriving in the Years Ahead!

Mark your calendars! We are currently in the process of putting together an "Estate Planning-Elder Law" workshop for you.

*May 20 (evening workshop in Broomfield)
May 25th (afternoon workshop in Denver).*

Details will be forthcoming in our next quarterly Lighthouse Newsletter.

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 experts.

Doing Business:

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