



# LIGHTHOUSE BEACON

*A Guide in the 21<sup>st</sup> Century*

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## *It's Time for Investing, not Speculating*

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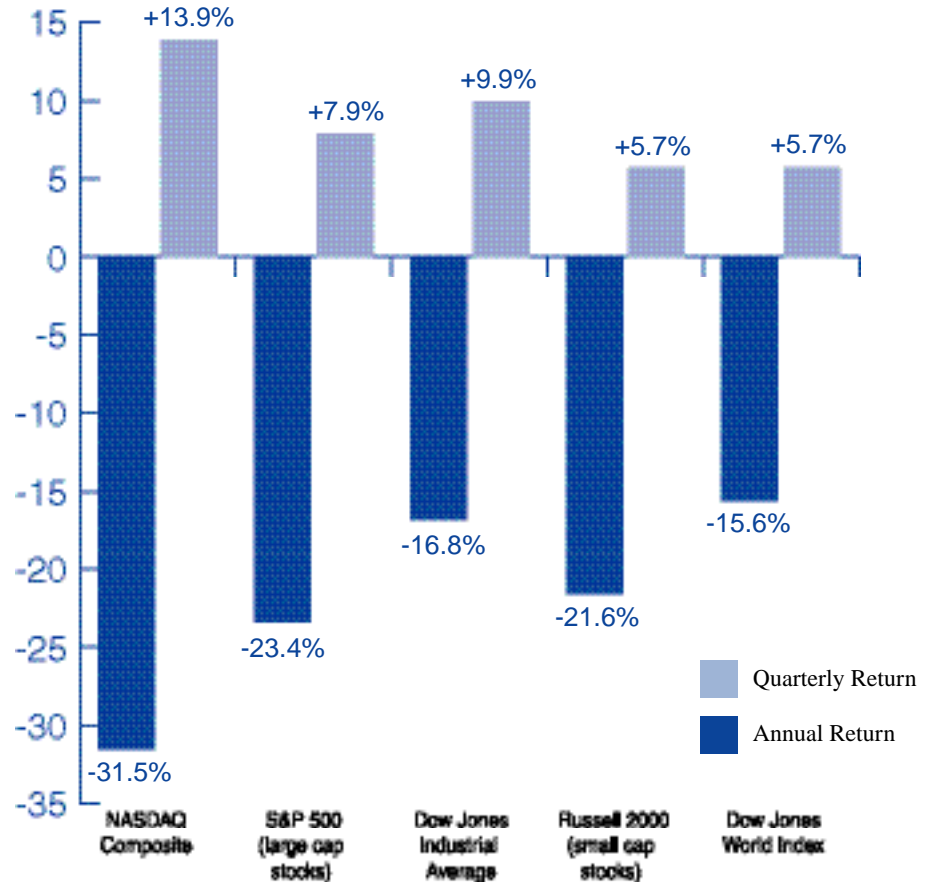
The year 2002 will go down in history as a year many stock investors will wish they had put their money under the mattress. Despite improving economic fundamentals, equity values plummeted for the first nine months of the year. Even a late-year comeback could not prevent all the major indexes from finishing with double-digit losses. It didn't matter whether you were invested in large cap or small cap, growth or value, stable or cyclical. You lost money.

Factors unrelated to economic fundamentals had a lot to do with the poor year. Geopolitical concerns ranged from the continuing terrorist threat, to fears of a nuclear confrontation between India and Pakistan early in 2002, to the prospect of war with Iraq at the end of the year. These worries cast a pall over investors already unnerved by unsettling allegations about executive malfeasance and accounting malpractice.

But the market may have started correcting itself from its dizzying descent in the final quarter of the year when it posted strong gains. This late bounce may have marked the start of the recognition that the economic fundamentals had been put in place in 2002 for an economic rebound.

### *Focus on the Markets*

**Reversal of Fortunes.** Equity markets staged a strong comeback in the final quarter of 2002, with the much-maligned technology and telecommunications sectors posting double-digit gains. While the rally was not enough to wipe out the steep declines of the previous three quarters, it demonstrated again why investors need to be in the market to benefit from sudden, dramatic reversals.



*Index returns are for price only, and do not include reinvestment of dividends. Past performance is not a guarantee of future results.*

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The Lighthouse Beacon is a newsletter from Lighthouse Asset Management LLC, a registered investment advisor offering portfolio management services to individuals, trusts, retirement plans and small institutions.

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As we look back on the disappointing results for 2002, we see many forces in place to encourage optimism about future opportunities:

- The economy is growing again after a short, shallow recession;
- Corporate profits are rising and cash flows are improving;
- Inflation and interest rates are at their lowest levels in decades;
- Accounting and investment banking scandals have been addressed forthrightly;
- Stock valuations have pulled back to reasonable levels;
- Leading economic indicators are rising;
- Productivity is increasing;
- Corporate expenses have been reduced, debt has declined and balance sheets have been strengthened;
- Corporate inventories have been drawn down and in need of rebuilding;
- The Bush administration and the Federal Reserve are committed to accelerating economic growth.

<b>Lighthouse Highlights</b>		
<b>Selected Lighthouse Portfolio Holdings</b>		
<b>Fourth Quarter 2002 Performance</b>		
<u>Company</u>	<u>Sector</u>	<u>Price Change*</u>
Citigroup	Financial	+18.7%
Amgen	Healthcare	+15.9%
TJX Companies	Consumer	+14.8%
Verizon	Telecom	+41.2%
IBM	Technology	+32.7%
<hr/>		
S&P 500		+7.9%
NASDAQ		+13.9%

*\* Price change only. Neither company nor index returns include any dividends. Performance of individual stock holdings in portfolios managed by Lighthouse Asset Management are not intended to indicate future results.*

On top of all these considerations, we were greeted in the new year with an encouraging report that manufacturing activity in December was much higher than anticipated. Manufacturing has been the weakest part of the economy for several years.

Further, President Bush has presented a new tax plan which will reduce taxes for

consumers and increase incentives for business to reinvest their capital. The President's plan also carries long-term, positive implications for stock investors because of the proposed elimination of taxes on stock dividends.

Together, all these factors combine to create an economic backdrop for an economic revitalization and a market rebound. After three years of anemic capital spending, corporations have reached the point at which they need to again invest to be competitive. And, with money market rates close to 1%, they have few attractive alternatives to investing in their futures.

It is time put the lessons of the last few years to work and invest in a diversified portfolio of opportunities across all sectors, including technology, emphasizing good companies with leading positions in their industries, strong managements, real products and services and, importantly, real revenues and profit growth..

Don't worry about short-term market swings. Invest in improving fundamentals both in the national economy and in individual companies.

It's a great time to be an investor, not a speculator.

## **Lighthouse Guides**

**Q: Is it cause for concern that corporations such as Coca-Cola are announcing they no longer will be issuing forecasts of their quarterly and annual profits?**

**A:** These announcements are welcome news to serious investors. Coke and others are making clear their intentions to concentrate on their long-term prospects for growth and profitability rather than on their short-term, quarterly earnings.

We should be investing in companies based on their fundamental strengths and their long-term prospects, not on how their revenues might be affected by short-term considerations. We should expect that corporate executives will be thinking about their strategic direction, rather than being obsessed with the fear that their earnings might fall short of Wall Street forecasts by a penny.

In hindsight, it is clear that the pressure to show good short-term results contributed to accounting abuses and speculative frenzy of the late 1990s.

Any change from a short-term to a long-term perspective can only be good for the financial markets and the investors who rely upon them.

*Lighthouse Guides is a regular column answering typical questions posed by clients discussing their portfolios.*