



LIGHTHOUSE BEACON

A Guide in the 21st Century

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Lighthouse Investment Commentary

Learn from the Past, but Invest for the Future

The second quarter of 2003 was the best quarter for stock investing in more than three years. It's about time!

When you consider the impressive results of the fourth quarter of 2002, two of the past three fiscal quarters have delivered strong stock performance. And we might have even had positive results in the first quarter of this year were it not for the sharp market reversals amidst the general anxiety leading up to the war in Iraq.

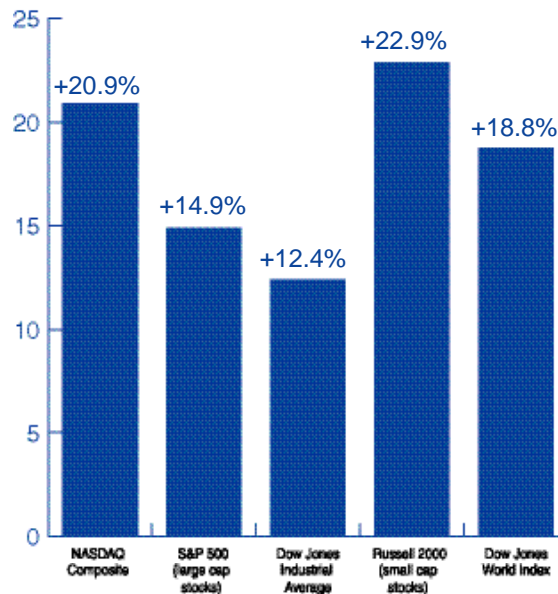
The gains have been realized against an economic backdrop that is improving because of many of the factors that we have cited in our last two reports. Low interest rates, low inflation, healthy consumer spending and improving corporate earnings are helping to lift equity prices from the artificial lows to which they had fallen in the stock market carnage of the past three years.

The recent rally has sparked some inevitable skepticism about the sustainability of the market momentum. To be sure, it would not be unusual after such a dramatic rise in stock prices for the market to pause, and even give back some of the recent gains. But, talk about a "bear market rally" - probably is overdone. We have just come through a severe, three-year decline in the stock market -unusually long by any historical precedent. However, we should not let the pain we all have felt in that prolonged slump impair our judgment and obscure our view of the present situation.

Despite all the problems of the past several years, the U.S. economy and the capital markets remain fundamentally sound

Focus on the Markets

Double-digit gains replaced deepening market losses during the second quarter as investors grew increasingly confident and more willing to accept risk and take advantage of the artificially low prices to which many stocks had fallen.



While all types of stocks turned in strong performance, technology, small-cap and foreign stocks led the way during the second quarter of 2003.

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

-perhaps made even stronger by having gone through such adversity. We should not just look back at the pain of the last three years. We can learn from the past, but we must invest for the future by maintaining a properly diversified portfolio of high quality stocks and fixed income securities that will allow us to participate in future opportunities.

Many signs point to growing opportunities. Trillions of dollars are sitting

in money market funds producing anemic returns. While this money is relatively secure, it is earning exceptionally low yields. On an after-tax, after-inflation basis, you actually are losing money in a money market fund. It should not take much for the funds sitting in money markets to start returning to asset classes with higher rates of return.

In this context, we should remember that one of the most important events of the

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The views in the Lighthouse Beacon are those of the professional staff of Lighthouse Asset Management.

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past quarter has been the passage of new federal tax legislation which has lowered the tax rate on stock dividends and on capital gains to 15%. The tax cut of 2003 has made investing in stocks even more attractive. At this point, the common stocks of some high-quality, blue chip companies are paying higher yields than some of the bonds of the same corporations. General Electric is just one example.

This is a terrific time to review your investment portfolio in view of your long-term investment goals. Fixed income securities may be an important part of your portfolio, but this is probably not the time to increase your allocation to bonds, especially bonds with long maturities. Where appropriate, you may want to remain invested in short-to-intermediate term securities, but there is a great deal of risk in the long end of the fixed income market. Interest rates currently are at their lowest level in decades. As evidence emerges that the United States economy and global markets are recovering, the next major move in rates will be up. This would undermine the

Lighthouse Highlights

Selected Lighthouse Portfolio Holdings Second Quarter 2003 Performance

<u>Company</u>	<u>Sector</u>	<u>Price Change*</u>
Genentech	Healthcare	+105.9%
EMC	Technology	+44.8%
Home Depot	Consumer	+36.0%
Cisco Systems	Technology	+29.4%
American Express	Financial	+25.8%
<hr/>		
S&P 500		+14.9%
NASDAQ		+20.9%

* 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.

prices of bonds, particularly longer-maturity securities.

You also should be cautious about using fixed income mutual funds, especially those funds that boast higher yields. A general bond fund, which presents itself as higher quality, actually may be able to invest as much as 20% of its assets in

below-investment grade, "junk" bonds. To compete for investors in a low-yielding environment, many fund managers may have increased their exposure to higher-risk securities to imprudent levels.

If you do need more income from your investments, you should consider using high-grade, preferred stocks instead of corporate bonds. Many such stocks currently have yields of more than 6%, but they have considerably less volatility than long-term bonds. High-quality, dividend-paying utility stocks and real estate investment trusts (REITs) also can be lower risk ways to earn income. They also have the potential to participate partially in stock market rallies.

We believe the bear market that began in March 2000 is finally over. Although we may experience additional uncertainty and market fluctuations, we think a well diversified portfolio of blue chip common stocks, preferred stocks and high-quality, short-to-intermediate-term bonds should serve investors very well.

Is now the right time to invest? Don't try to time the market. You may miss significant opportunities. As legendary investor Sir John Templeton once said: "The best time to invest is when you have the money."

Lighthouse Guides

Q: Should we be concerned by the possibility of deflation?

A: Not really.

Deflation is a real decline in prices across a broad array of goods and services. Theoretically, it is a threat to an economic recovery because companies have less incentive to produce goods when they face continually declining prices for their products. That's not the case today, however. While we are in a period of low inflation and general price stability, we are far from a real decline in prices across the board. For example, prices for services continue to rise. Just look at the recent price increases in healthcare, education and utilities!

While there have been price declines for many products, they have been more a result of improved productivity and increased worldwide competition than of actual deflation. Furthermore, the recent price declines have occurred during a period of extreme contraction in certain economic sectors, notably technology.

We continue to believe that an economic recovery has begun. As the recovery continues, we should expect a stronger pricing environment and an end to warnings of deflation.

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

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