



# LIGHTHOUSE BEACON

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## *Tumultuous Market Reinforces Need for Investment Expertise*

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The financial markets gave many investors a tumultuous ride during the past five years. Dizzying gains from the stock market in the late 1990s emboldened many investors. Then, in an abrupt reversal, the stock market plummeted for three consecutive years, producing fallen portfolio values and deflated investor egos.

While few forces can build an individual's self-esteem as easily as a steadily rising net worth, even fewer forces can be as humbling as an "I-did-it-myself" investment strategy that steals half or more of one's capital.

The sharp reversals in the market's momentum underscore the importance of perspective and expertise provided by a private investment manager who is able to provide direction in all markets, whether good or bad. A private investment manager has the ability to provide ongoing advice and make adjustments to an individual's investment portfolio as market - circumstances change and as personal situations and attitudes evolve.

While mutual funds certainly can play an important role, particularly for small investors, the volatility of recent years has

exposed the weaknesses and vulnerabilities of many mutual funds as well as many well known large investment advisers. Often measured against an impersonal market benchmark, such as the S&P 500 or the NASDAQ Index, mutual funds by their nature cannot react to the personal goals and needs of their investors. Their portfolio managers rarely, if ever, talk with individual investors. Often, these managers are inexperienced individuals who entered the investment industry during the past 10 or 15 years, and do not have the perspective that comes from seeing multi-year market trends and reversals.

The combination of the inexperience of mutual fund managers and their inability to make adjustments based on the needs of their investors has exacerbated the wounds

suffered by investors as the markets twisted and turned, rose and fell, during the past five years. Those investors who tried to make their market decisions by themselves, choosing mutual funds based on last year's performance or the number of stars next to their name, often have felt the greatest pain. This pain can be sharpest for those who are 50 or older, either nearing retirement or in retirement, who have seen their dreams placed in jeopardy.

For these individuals, especially, it is vital to reassess their investment goals to protect their remaining wealth and to have an opportunity to rebuild their portfolios in a manner consistent with their individual circumstances and willingness to accept risk.

It probably is time to consider seriously the advantages of a private investment management firm with a private portfolio manager who has the ability to identify your investment needs and manage your money to meet those needs. A private manager will communicate with you directly, control your trading costs and maximize your after-tax returns. All these factors mean that a private manager can work to achieve the best absolute returns for you, rather than the best returns relative to some arbitrary index or mutual fund category that may have very little to do with

### ***Lighthouse Advantage***

Lighthouse Asset Management LLC provides each of its clients with the advice and personal attention of an experienced investment manager. From its inception, Lighthouse's consistent focus has been on giving expert investment management services to all clients, appropriate to their goals and concerns.

Every member of the Lighthouse team has the perspective and insight gained by working in the capital markets for more than three decades.

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your personal goals.

Private portfolio managers offer many advantages, including:

❖ **Management for specific, personal goals.** A private client's money is managed according to the individual client's needs. The specific investment strategies, assumption of risk, and even buy-and-sell decision tactics are worked out to be consistent with stated client goals. Face-to-face meetings between clients and their professional managers can help identify exactly what clients hope to achieve with their investment dollars, the length of time before they will need the money, and how much risk the clients are willing to tolerate. Private clients are never thrown into anonymous groups with a generic set of investment objectives, constraints and preferences. Also, a portfolio is never managed to follow an impersonal investment policy developed for an institution's marketing strategy.

❖ **Risk is personal, not institutional.** Private clients are not so much risk-averse as they are loss-averse. Unlike institutional clients, private clients don't quantify risk in mathematical terms and they usually are not philosophical about losses. They are not told a 10% loss in a year is a good thing because most competitive funds lost 15%. Private managers understand that their clients care more about losing money than beating an index.

❖ **Maximization of after-tax results.** Mutual funds and many other investment managers have been slow to take into consideration the effects of taxes on the actual returns realized by investors. However, taxes usually are very important to private clients. Clients and, when appropriate, their accountants, attorneys and advisers can interact with the private portfolio manager, receive current reports on income and capital gains, and use the gains or losses on individual securities to offset a loss or gain somewhere else.

Moreover, the tax liability from an investment is only on the earnings of the client's investment. Each year, mutual fund shareholders are subject to taxes from gains or losses realized by the fund, regardless of how long or short a period they have been investors in that fund.

❖ **Continuity of management.** Private clients know their portfolio manager

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and the investment style being used. Clients can reasonably be assured their managers will continue as long as they need and want them. At large mutual fund companies and large investment companies, managers frequently are reassigned based upon the needs of the company. In addition, mutual fund companies and investment companies often change investment strategy after a period of poor performance. This very frequently results in change at the worst possible time, when the market leadership trends themselves are changing in the reverse direction. Or, a manager will be pressured to adjust style to keep up with a peer group. This results in style drift and, many times, the taking on of more risk than the fund investor had expected.

❖ **Frequent, personal communications.** Private clients can be in touch with their portfolio managers whenever they want, either in person, by phone, by e-mail, or through written correspondence. It is the manager's responsibility to be responsive to the

questions and specific needs of the client and to tailor any response to the client's inquiry, rather than to the institutional "talking points" of a large mutual fund or large investment management company.

❖ **Control of costs.** A private client always knows how much he or she is paying, including the costs of brokerage commissions incurred in buying or selling individual securities. Published mutual fund expense ratios tell only part of the story. Less understood is that mutual funds do not include trading costs and brokerage commissions in their reports of fund expenses. And yet, the fund shareholder pays those expenses, which are deducted from gross performance results. The average equity mutual fund has a turnover rate of 100% a year. This means that portfolio managers are constantly rotating in and out of stocks, incurring significant costs as well as affecting after-tax investment results. Other hidden expenses also are incurred. For example, a mutual fund often pays a premium to the market price of a stock in order to acquire a large block of shares. The reverse, and another expense, occurs when a large position is sold by a mutual fund company. A private portfolio manager is very aware of the costs of trading and can keep the portfolio turnover rate low to maximize the client's net return. Taking all these factors into consideration, it is easy for a mutual fund shareholder to pay as much as 2-3% in annual expenses, or two-to-three times the cost of a private manager. And, this doesn't even address the consideration of the effects of front-end loads, back-end loads and level-loads which eat into an investor's real return.

No matter what your age or risk tolerance, or how much pain you have suffered from the market's volatility of the past three years, it is never too late to make sound, prudent decisions about your money.

This may be an opportune time for you to consider a private personal investment manager.