Investment Directions

Winter 2010

COMPASS ADVISORS

Celebrating 20 Years!

CHART ✦ NAVIGATE ✦ ARRIVE

2009 in Review

2009 was a wild ride. After initially dropping, the value of America's great companies rebounded in a big way and ended the year with a significant gain as measured by the major stock indexes. From the bottom in early March to the end of the year the S&P 500 gained over 60%.[1] For the full year it was up over 25%.

Still, the S&P 500 is well below the high it hit in 2007.

2010 Outlook

I expect 2010 to start strong and end weak. I expect at least a slow down. I believe three factors may cause this:

First is higher interest rates. As the economy improves the Federal Reserve is likely to raise interest rates and to stop buying mortgage backed securities. This is what the end of stimulation could look like and it brings some natural consequences. One of those is higher interest rates which impacts both individuals and businesses.

Second is inflation. A year ago the government released dollars to stimulate the economy; some we borrowed, some we printed. More money in the system may mean higher prices for food, for energy, for life. Higher prices may put a brake on the recovery and may dampen the rebound in the stock market.

Third is bigger government. A study concluded the larger the government, the slower the nation's economy grows.[2] I believe our recent growth in government spending may result in somewhat slower economic growth going forward.

Therefore What?

Despite the three factors above, I remain optimistic. I believe in the strength of our economy, the wisdom of our constitutional government and in our prospects for peace and prosperity in the world. I believe America's best days are yet ahead.

Here is my recommendation: Have a financial plan. If you are in the build up phase, save regularly and invest with a solid strategy. If you are in the payout phase, be disciplined as you manage your nest egg and the income it currently provides. In other words, plan to chart, navigate and arrive.

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[1] The S&P 500 is an unmanaged index of 500 large American companies. It does not accommodate direct investment. 60% gain is based on a low of 676.53 on March 9th and the year-end close of 1,115.1.

[2] "The Size and Functions of Government and Economic Growth" Published in 1998 by economics professors James Gwartney, Robert Lawson, and Randall Holcombe.

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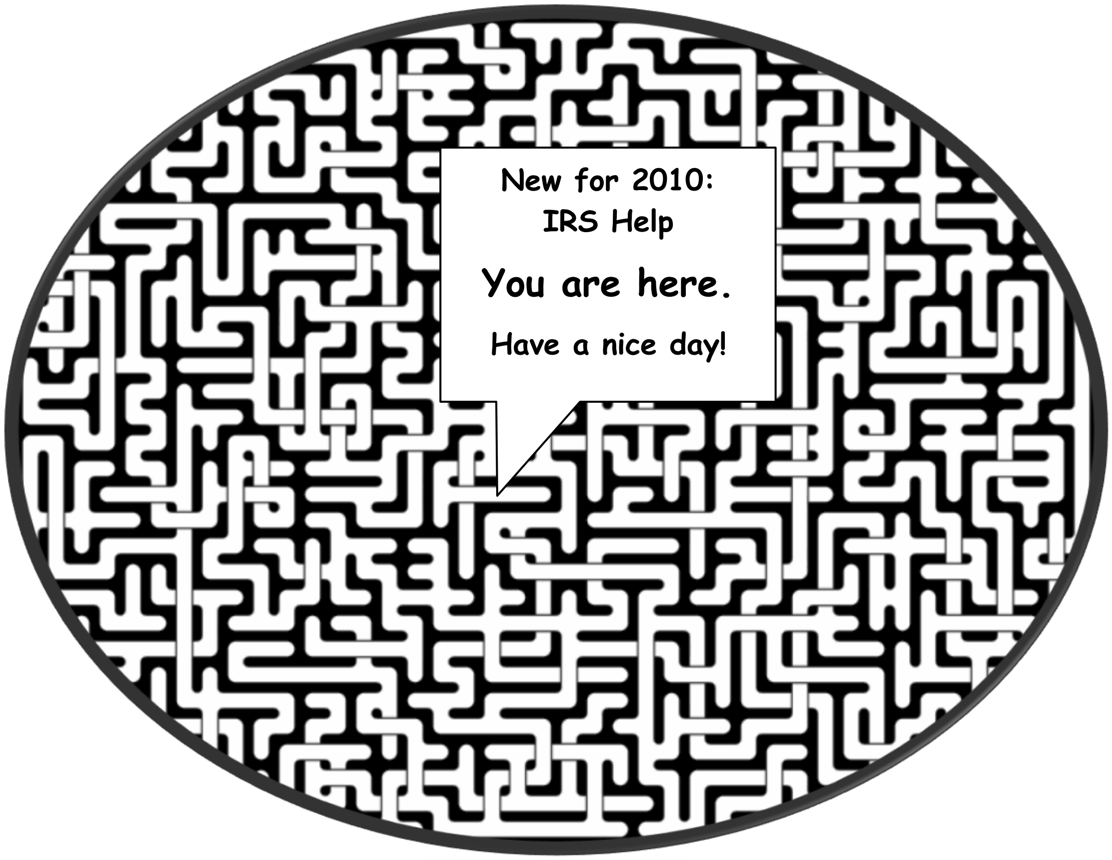


Compass News

Congratulations!

Kristal Gerdes, my assistant for the past six years, had her third child back in October. After two girls she got a boy and has cut back her hours to care for her little crew. Kristal continues to help us with special projects as she is able. Congratulations to Kristal and Dan and best wishes on your journey ahead; we know the future is bright!

WELCOME

In related news, Katherine Partington has joined our staff to help with client care and administrative duties. Katherine is pursuing a business degree at Highline CC and is doing advanced studies in client pampering here at Compass Advisors. We welcome Katherine and hope you will have a chance to talk with her soon.

TAX LAW CHANGE:

ROTH IRA'S – NEW RULES FOR 2010

The Old and the New

2010 may be one of the most exciting years for Roth IRA accounts since their creation in 1997. While many of the basic rules and contribution limits remain the same, the big news is the 2010 Roth IRA conversion rule change.

First a word about Roth IRAs, then we will address the changes. Roth IRAs are potentially attractive because qualifying distributions are tax free[1]. Let me say that again: Qualifying distributions from Roth IRAs are tax free.

The Big Change

Until the end of 2009, if you earned more than $100,000 in taxable income you could not convert your traditional IRA to a Roth. Starting in 2010, the income limit is gone.

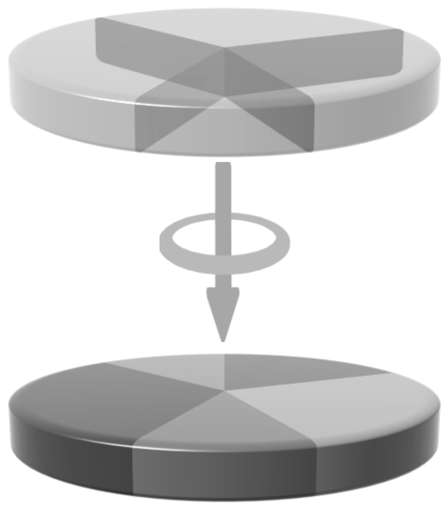
The income ceiling is just one of two reasons many people did not convert, the other is cost. Since most traditional IRAs are full of pre-tax dollars, when you convert from a traditional IRA to a Roth, the dollars become taxable.

To help with this second obstacle, those who choose to convert in 2010 will be able to split their tax bill between two years: half of the tax would be due in 2011 and the other half in 2012[2].

[1] *Restrictions, penalties and taxes may apply. Withdrawals from the account are tax free as long as the withdrawal is considered qualified. An example of a qualified withdrawal would be if a withdrawal is taken when the IRA holder is at least 59 ½ and at least 5 years have passed since the IRA holder first contributed to the Roth.*

[2] *If you spread over the 2 years, you will be subject to 2011 and 2012 tax rates. Please talk to your tax advisor.*

These two changes together are what have helped create the 2010 Roth conversion excitement. While the tax splitting is set to expire at the end of 2010, it seems likely the higher



income ceiling will remain with us for some time to come.

Is a Roth Right For You?

Should you convert your traditional IRA to a Roth this year when the rules are more favorable?

Good question. The best answer is to see your financial advisor, discuss your individual situation and run the numbers. I would be happy to do that for you but since I have a few column inches left on this page, allow me to give you something to chew on.

One important factor, perhaps the most important factor, is your individual tax rate. This requires some guesswork on your part.

Ask yourself: What percentage of my IRA would go to the IRS if I converted to a Roth in 2010? That is probably not too hard; we can probably get pretty close on that number.

Now ask yourself: What percentage of my income will I pay to the IRS when I draw money from my retirement account? That is a tougher question.

If you expect your tax rate to go up, you might convert your IRA to a Roth and pay the tax now. If you expect your tax rate to go down, you might keep your traditional IRA and wait to pay the tax after you retire.

Other IRA Notes

In 2010 contribution limits for Roth IRAs are the same as for traditional IRAs: $5,000 if you are under 50 years old, $6,000 if you are 50 or older.[3]

I continue to discourage folks from making non-deductible IRA contributions, I would generally recommend you save the money elsewhere. I am not in favor of the headaches and additional accounting required for non-deductible contributions.

If your employer's retirement plan allows you to make Roth 401k contributions you might want to consider that as well.

In closing let me say again I am not nor have I ever desired to be a tax professional. This article is intended to be informational -- your individual situation must be considered so I recommend you consult a qualified tax professional and consider all potential consequences.

[3] *Eligibility to contribute is based on income limitations.*

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New Tools for New Times

Learning… Always Learning

Ten years ago we experienced what I believe at the time I called a "once in a lifetime correction." Then a year or two ago we had another one. Clearly we are seeing increased volatility which requires we pay closer attention to market conditions.

Here at Compass Advisors we don't like surprises. In response to recent unexpected events we have developed a tool to help us keep a closer eye on trends. We monitor over two dozen asset classes and update the data daily.

We track historical price and volatility in each asset class and compare it to current levels. When trends appear to develop or volatility levels change we see it more quickly.

As we closely monitor specific sectors in the investment marketplace we have found this tool to provide valuable insights. Although the tool itself is complex and the asset classes are many, you should be aware we are watching the following general areas:

Hard Assets Sector including stocks in areas like real estate, precious metals, oil and natural gas, etc.

Foreign Stock Sector including large and small companies in both developed and developing nations around the world.

U.S. Stock Sector including large multi-national companies located here but also smaller companies of various types.

U.S. Bond Sector including a range of high quality to lower quality bonds, short, intermediate and longer-term maturities. We also track variable rate bonds.

Semper Paratus

The U.S. Coast Guard motto is Semper Paratus which means "always ready." Our objective is to be aware and ready, come what may. We are watching for opportunities and hope to take best advantage of them when they arise. All this with an eye toward developing more effective ways to chart, navigate and arrive.

An observed trend will not necessarily persist. No strategy ensures a profit or protects against loss.