



SUMMER 2015

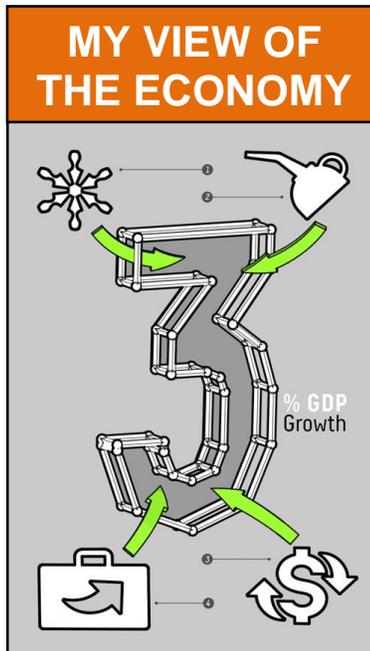
CHART  
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I believe this economic expansion which began six years ago is not done yet. What follows is a detailed case supporting this optimism based on existing facts as we see them.

My first data point is the “good old American know-how” economy. Since the beginning of the current economic expansion in the second quarter of 2009, this segment of the economy has outperformed the “old” economy by a sizable margin<sup>1</sup>. The competitive advantage of the U.S. in the service sector, including “good old American know how”, should help to drive economic activity and employment higher, especially in areas that require advanced skills. Our economy relies heavily on exports and employment in the service sector. This sector continues to be in high demand in fast-growing emerging markets worldwide and should help promote longer U.S. economic expansions generally and I believe this one specifically.

### Guidance of History

LPL Financial<sup>2</sup> is forecasting 3%+ growth in Gross Domestic Product (GDP) over the remainder of 2015. If this target is met, by the end of the year this would become the fourth-longest economic expansion since World War II at 78 months. Knowing this, some have wondered if it is



time to find our coats and head for the door but I say no, this party is not over yet.

The last three expansions, which began in 1982, 1991, and 2001, respectively, lasted an average of 95 months, or roughly eight years. By that measure, the current economic expansion still has room to grow. We may be in the late stages of this party but before it is over we expect to see strong economic growth, rising inflation, accelerating wage gains and the Federal Reserve raising interest rates.

### What about Jobs?

Jobs follow economic activity and from June 2009 until early 2010 the private sector didn't help much. Since then we have added 12 million jobs, more than 3 million in the year ending in May 2015 or about 250,000 jobs per month.

If GDP grows at 3% over the remainder of 2015, we should create more than 200,000 jobs per month. This would match the middle of every business cycle over the past 30 years when economic growth was between 3% and 4%. We expect the most growth in the “good old American know-how” economy.

Based on these facts and others, I believe the odds of a recession between now and the end of 2016 are low. We do not yet see the kind of imbalances which typically lead to a recession – when we do, that will be the time to dump the punch and look for a new party.

Produced by  
Randal L. Nicholls

<sup>1</sup> Good old American know-how is measured by the combined GDP of transportation and warehousing; finance and insurance; professional and business services; and arts, entertainment, recreation,

accommodation, and food services. The “old” economy refers to manufacturing, and is measured by goods production ex-mining.

<sup>2</sup> LPL Financial is our broker/dealer, much of the data presented here is from them.



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*The Lowest Form of Humor*

To write with a broken pencil is pointless.

What's the definition of a will? (Come on, it's a dead giveaway!)

Did you hear about the optometrist who fell into a lens grinder and made a spectacle of himself?

Two antennas met on a roof, fell in love and got married. The ceremony wasn't much, but the reception was excellent.

When an actress saw her first strands of gray hair, she thought she'd dye.

I'm reading a book about anti-gravity. I just can't put it down.

I stayed up all night to see where the sun went, and then it dawned on me.

At the supermarket I saw a man and a woman wrapped in a barcode. I asked, "Are you two an item?"

Where did the king put his armies? In his sleeves.

Those who get too big for their britches will be exposed in the end.

A dentist married a manicurist, but they fought tooth and nail.

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So you want to have a party but you are tired of the same old stuff? The Compass Creativity Crew can help! Here are three quirky ideas to help turn mundane into marvelous:

### 1. Sky Lanterns

These are like little hot air balloons made out of paper. Amazon sells a set of 14 for about \$8 with free shipping. Go to a safe place (where the wind will blow them out over water for example) and when it gets dark, light them and let them go! They will glow and float on the wind until they are out of sight.

### 2. Pictionary with Sidewalk Chalk

It's cheap, requires almost no prior preparation and washes off with the squirt of a hose or the next rain. All you will need is the game, a box of chalk, a smooth cement surface and something to kneel on – big colorful pictures are way more fun than paper and pencil.

### 3. Scavenger Hunt

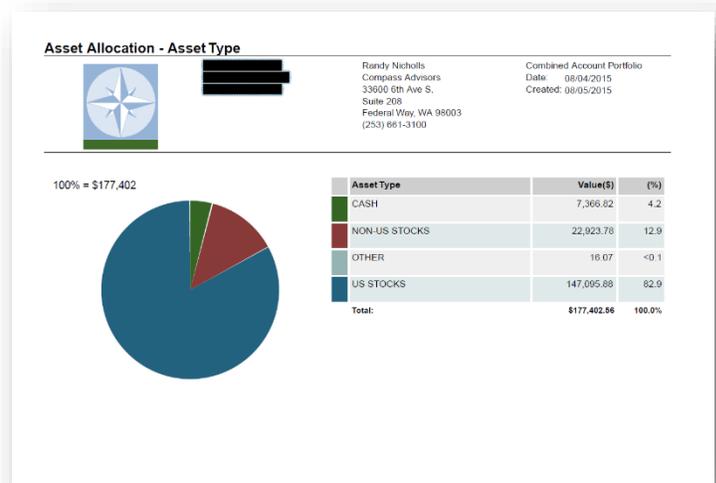
If you've got smart phones check out *Scavenger Hunt with Friends* or other free apps. One person sets up the hunt, then teams head out to find the items and take a picture of each with the phone. When you are done you get together and laugh over the pics.



While it might sound like heresy to some, I recall life without the internet. I am not that old. I did not ride a horse to a one room school house or draw water by bucket from a well.

You too may recall the click of a typewriter, the screeching and beeping of modems and the cheery voice announcing “You’ve Got Mail!” Now we carry smart phones in our pockets, make calls from anywhere and have immediate access to news and entertainment. Soon we may be making video calls, changing the temperature on the thermostat and buying groceries from our easy chair. Wait, I think my kids are doing that already.

Technology is opening wonderful new doors of convenience and with each we are stretched to embrace new ways of doing things. The investment



industry in particular has changed dramatically. Trading is more efficient, news is blazing fast and parades now use shredded paper in place of ticker tape.

While investment companies are still required to send out statements to their clients, who has the time to wait for that?

For some years now we have made reports available via the internet to all who care to sign up. Recently we have expanded the number of reports you can access. I encourage you to try out this new way of viewing your accounts. Your regular paper statements will still come at the end of the month or quarter but you will also be able to look up transactions, asset allocation and performance any time of the night or day.

The box on this page will guide you through the process. I know this may cause you to stretch some but I hope the service will give you more confidence in your investment strategy.

### How to Sign up for Online Account Access

1. Go to **[www.lpl.mainaccount.com](http://www.lpl.mainaccount.com)**
2. Click on the Registration button
3. Enter your info and the temporary password G5PIKIU
4. Accept the terms
5. Create a user name and password
6. Submit



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All performance referenced is historical and is no guarantee of future results.

All indices are unmanaged and cannot be invested into directly.

Stock investing involves risk including loss of principal.

The economic forecasts set forth in the presentation may not develop as predicted. No strategy ensures success or protects against a loss.

# CHART ♦ NAVIGATE ♦ ARRIVE

## New Tools for New Times – Income Strategies

If you are an investor looking for income, these are tough times. Historically, this is a low spot in the interest rate cycle and we may stay here a while. Perhaps it would make you feel better to point out that many of our friends in other countries have it worse. Consider the chart below which shows interest rates paid on ten-year government bonds from the G7 countries. We actually look pretty good by comparison.

You can find higher interest rates, Greece for example pays much more than the G7 countries shown in the chart. A ten year government bond in Greece pays over 11%<sup>1</sup> ... a great deal if they don't declare bankruptcy in the next decade. For most folks, that is well outside their comfort zone and not something they would consider.

### Be Creative!

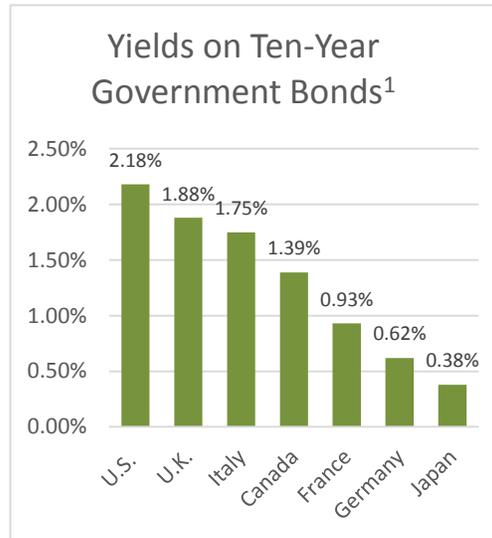
There are other income investments to be had, particularly if you are willing to be a bit creative. Here are five:

First, three types of bonds -- **municipal bonds** which are issued by state and local governments<sup>2</sup>, **intermediate-term, high-quality bonds** which have a maturity date of less than ten years, and **high yield bonds** which we used to call junk bonds<sup>3</sup>. These last typically pay more than the first two because the issuers are not as strong. Be

careful here, we should talk before you invest.

The last two ideas are more creative: The common stock of America's great companies often pay a dividend. In fact, 421 of the 500 companies in the S&P 500 index pay a dividend. The average payout rate for those companies is above the current ten-year treasury interest rate.<sup>4</sup> Some pay quite a bit more. You might consider investing in **America's great dividend paying companies**.

Finally, some companies issue **preferred stock**. This might be considered a hybrid security, between bonds and stocks, and some pay a healthy dividend. You may be able to earn twice what the ten year treasury pays but here again these are not bonds, they act different and we should talk before jumping in.<sup>5</sup>



<sup>1</sup>Bloomberg Business as of 4 Aug 2015, Bloomberg.com

<sup>2</sup> Municipal bond interest income may be subject to the alternative minimum tax. Municipal bonds are federally tax-free but other state and local taxes may apply.

<sup>3</sup> High yield/junk bonds (grade BB or below) are not investment grade securities, and are subject to higher interest rate, credit, and liquidity risks than those graded BBB and above. They generally should be part of a diversified portfolio for sophisticated investors.

<sup>4</sup> Indexarb.com as of 4 Aug 2015. The payment of dividends is not guaranteed. Companies may reduce or eliminate the payment of dividends at any given time. In addition, investing in stocks involves greater risk and more potential for loss than investing in bonds.

<sup>5</sup> Preferred stock list at dividend.com

Bonds are subject to availability and change in price. They are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise.