



SPRING 2016

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Volatility is Normal

In the past year we have had two significant dips in the value of America's great companies: First late last summer then again early this year. Each time the major U.S. stock indexes dropped over 10%¹ and each time it felt jarring.

Many wondered if this drop would be "the big one." Another price cliff like we had back in 2008 or before that in 2000. Wait... 2000 to 2008 is 8 years, 2008 plus 8 is 2016... maybe it *is* time to panic!



The Sky is Falling!

Just kidding. Historically, these types of price drops are quite normal. Since 1950, the average peak-to-trough decline for the S&P 500 is 14%; even in positive returning years, the average is 11%².

Despite that, such dips feel like unexpected turbulence on a pleasure trip: your drink sloshes and you wonder if the Boeing engineers screwed the wings on tight enough. When the napkin gets wet our minds jump to legal papers and life insurance. Rational or not, the fear is real.

Hopefully, a dip in the price of America's great companies does not seem quite so ominous. This past year, each time prices dropped buyers stepped in and bid prices back up again.

Life on the Verge

In my opinion we are not on the verge of "the big one." We probably *are* on the verge of more volatility. Whether it is the product of 24/7 news cycles, international insanity, seismic social shifts or this crazy political environment, it is not likely to go away

anytime soon. Rather than fear the ups and downs I recommend you look for opportunities to take advantage. While I am not a proponent of day-trading or high-risk speculation, there may be opportunities to buy low or sell high as prices swing.

Carpe Diem!

Sometimes volatility is driven by fear rather than fundamentals. If a company or sector you like is beaten down based on emotion, there may be a bargain to be had. When Wall Street stampedes, you may be able to profit by bucking that trend – buy when others are selling or vice versa.

Perspective is the key. This is a wonderful time in the most marvelous nation the world has ever seen. In an earlier age our homes would be worth a kingdom. Our technology would be miraculous; our peace and prosperity, priceless.

Life is not sweetness all the time but when it rains, we should remember to appreciate green grass, budding trees and rainbows. I say Carpe Diem, seize the day!

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¹ S&P 500 Index as reported by Yahoo Finance: 7/20/15 (2128.28) to 8/25/15 (1867.61) & 12/29/15 (2078.36) to 2/11/16 (1829.08).

² The S&P 500 is an unmanaged index of 500 large American companies and does not accommodate direct investment. LPL Research, FactSet 11/6/15. Performance data represents past performance and is no guarantee of future results.



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PRESIDENTS

PONDERING POLITICS

—*John Kennedy*: "I just received the following wire from my generous Daddy: "Dear Jack, Don't buy a single vote more than is necessary. I'll be damned if I'm going to pay for a landslide."

—*Jimmy Carter*: "My esteem in this country has gone up substantially. It is very nice now when people wave at me, they use all their fingers."

—*Bill Clinton*: "Being president is like running a cemetery: you've got a lot of people under you and nobody's listening."

—*Lyndon Johnson*: "If one morning I walked on top of the water across the Potomac River, the headline that afternoon would read: 'President Can't Swim.'"

—*Ronald Reagan*: "I have left orders to be awakened at any time in case of national emergency -- even if I'm in a Cabinet meeting."

Compass Welcomes Amanda Dunford

A few weeks ago Amanda Dunford joined the Compass team as a client service specialist. Amanda has a degree in communications so you know she will be easy to talk to. She grew up in the Federal Way area, is married and the mother of a two-year-old son Morris. She is excited to be part of the team, eager to meet all of our clients and anxious to learn the skills of the trade.

Quotes source: PoliticalHumor.about.com
Wizard of Id Comic Strip © John L. Hart FLP, printed with permission. www.johnhartstudios.com



LAWS, LAWYERS AND LEGACIES

Recently I read an article which reported 60% of U.S. Adults don't have a will. I can understand that, who wants to think about dying, or worse, dealing with a lawyer?

Ok, we should get beyond the lawyer jokes ... but just one more: What's the difference between a good lawyer and a bad lawyer? A bad lawyer can let a case drag out for several years. A good lawyer can make one last a lifetime.

More seriously, legal documents are not an extravagance for the rich, something to think about when you get old or just for folks with complicated financial or family situations. I recommend you (and your spouse or significant other) have three basic documents: a will, a power of attorney and a directive to physicians.

Why You Need a Will

A will is a written and hopefully clear declaration of what you want to happen after you die. It can specify who should receive your assets, how they will receive them and who will take care of any minor children or others for whom you are responsible. You have probably thought about and planned for such things, a will can help you accomplish them. If you don't get around to it, the state will have a plan for your assets and your loved ones but you may not like it very much. Since life is uncertain, you should have a will now.

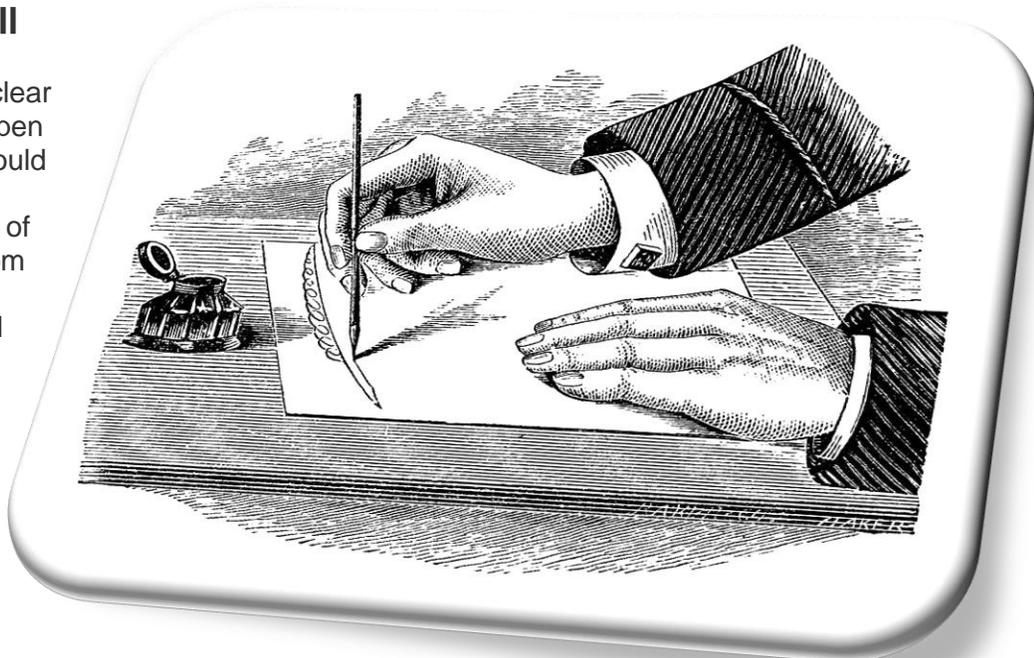
Why You Need a Power of Attorney

A power of attorney takes effect while you are still living but unable to handle your own affairs. It names a person who can act in your stead if you

become incapable. A power of attorney allows someone who cares about you to handle your affairs. If a home needs to be sold or a retirement plan claimed, a person with power of attorney can do that. Without such a document loved ones could hire a lawyer and petition a judge but that is a lot to ask in such an emotional time. I recommend you grant a power of attorney and name a couple of backups just in case.

Why You Need a Directive to Physicians

Sooner or later most of us will end up in the care of physicians. We are grateful for their skill and education, for their judgment and care. When a person is in such care it is an unsettling time for their loved ones. A directive to physicians, sometimes called a living will, spells out how much care is appropriate and when extraordinary efforts should cease and let nature take its inevitable course. These are difficult questions which you can decide by creating a legal document or you can leave it to your loved ones to decide in a time of emotional distress. I recommend you plan ahead and make a directive to physicians. Your loved ones will thank you.



This information is not intended to be a substitute for individualized legal advice. Please consult your legal advisor regarding your specific situation.



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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.

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New Tools for New Times

Identifying, Measuring and Addressing Volatility

Risk is a vague term; in the investment world we prefer to use the word volatility because it is more clearly defined. Once a thing is defined it is easier to handle. In this article I will attempt to explain two tools which can help us get our arms around investment volatility.

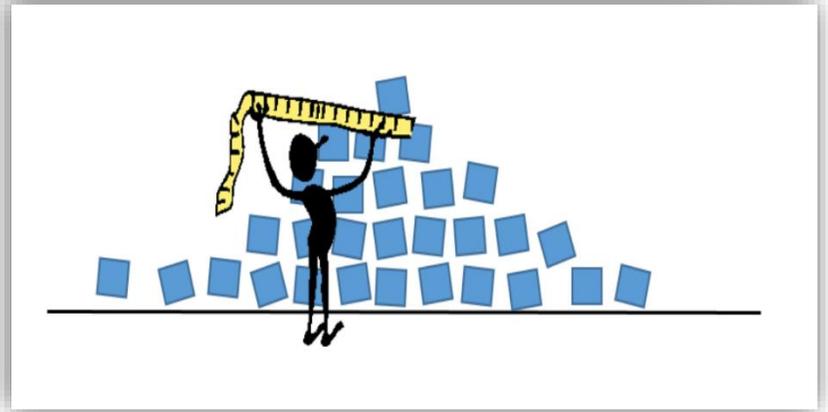
First, fair warning: we will need to get our feet wet in the soggy science of statistics. I will try to keep it simple yet instructive.

Tool #1 Defining the Spectrum

In any large pile of numbers, statistics can help us find some order. Usually certain numbers will occur more frequently and others less so.

Standard deviation is the statistical tool used to describe the common-ness of the numbers. Less common numbers form the raggedy edge of the pile and have a higher standard deviation, or greater distance from the middle. The tool does not judge good from bad, both an unusually high number and an unusually low one would have a high standard deviation.

Investments with a high standard deviation could be placed on one end of a spectrum labelled “volatile” while those



with a low standard deviation could sit on the other end labelled “stable.” Every investment you can think of can be placed somewhere on that line or spectrum, allowing us to identify and measure the volatility of a given investment.

Tool #2 Bang for your Buck

For many years that is as deep as most managers went. A few decades ago, William F. Sharpe, of Stanford University, added expected return to the spectrum as a way of measuring “bang for your buck.”

We expect to get more return if we take on more volatility, the “Sharpe Ratio” tool helps us quantify how much. That was a revelation. If you want the most return for the least amount of volatility (and who doesn’t?), this tool can help.

When creating portfolios to work toward your goals, the two tools of standard deviation and Sharpe ratio may provide valuable guidance. We use them all the time.