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# Investment Directions

Winter 2006

## The Interest Impact

Of all the factors that impact our investments perhaps the largest is the interest paid on U.S. Treasury bonds. Treasury yields are like the big kid on the trampoline – if you want to play but you don't want to land on your head, you need to keep a close eye on that guy.

Recently two noteworthy events occurred. First, the Federal Reserve Board increased their target for the fed funds rate to 4.5% and second, the Treasury Yield Curve briefly inverted for the first time in several years.

## What's the Fed doing?

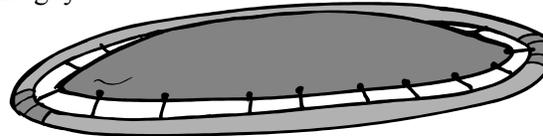
Wall Street's reaction to the Federal Reserve Board's increase was a yawn. I agree.

The bigger news here is that this meeting was the last one presided over by Alan Greenspan, the masterful chairman of the Federal Reserve Board since 1988. In March Ben Bernanke will take over and I believe they will raise rates again to 4.75%.

Bottom line here is that despite the headlines, the biggest impact on our investments will likely not be from the rate hike but the new chairman. We will be watching closely.

## Inverted What?

People often talk about interest rates moving up or down as if all rates move together but they don't. Short-term interest rates may move one direction while longer-term interest rates might move the other. The relationship between these rates is called the yield curve and it usually slopes up to the right.



A normal yield curve typically indicates a healthy economy and a stable long-term outlook. An inverted yield curve is rare and may indicate the economy is going to falter.

It is enough to put the media "experts" into a tizzy. The prospect of an inverted yield curve gives them a new topic they could speculate about for weeks.

## Not to Worry

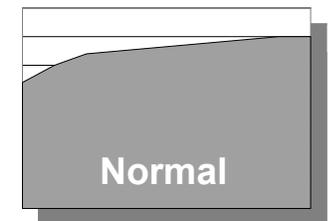
I am grinning as I write this. How, you

may ask, could you smile when an inverted yield curve could rear its ugly head at any moment?

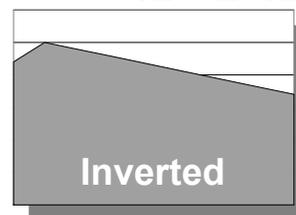
I smile because I am not worried.

The yield curve is flat today and even if it goes inverted it may be for other reasons, for example:

- 1- Foreign investors hold lots of longer-term U.S. Treasury Bonds and do not intend to sell them.
- 2- The Federal Reserve rate hikes seem to have lifted the shorter end of the yield curve while the longer term has remained steady.
- 3- America's great companies are flush with cash. They may not need to borrow



- much to finance expansion.



I am keeping a wary eye on interest rates but the outlook remains bright. I believe 2006 could be a fine year for investors and am investing accordingly.

Produced by  
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## Compass Chuckles



"Very good! Now let's try it from back there."

## *Philosophers' Corner*

*To do is to be.*

*Socrates*

*To be is to do.*

*Sartre*

*Do be do be do.*

*Sinatra*

# The Anatomy of an Investment Firm

Recently the Securities and Exchange Commission required all Broker/Dealers to send a letter out to their clients to confirm certain financial information. You should have received one by now from our broker/dealer, Mutual Service Corporation.

This letter brought some questions from our clients regarding MSC and the role of a broker/dealer so we thought we would take this opportunity to explain our business structure.

## Compass Advisors

Compass Advisors is where the relationship begins. We help you identify goals and work toward achieving them. Our systematic process is centered on you: your hopes, your time horizon, your measure of success.

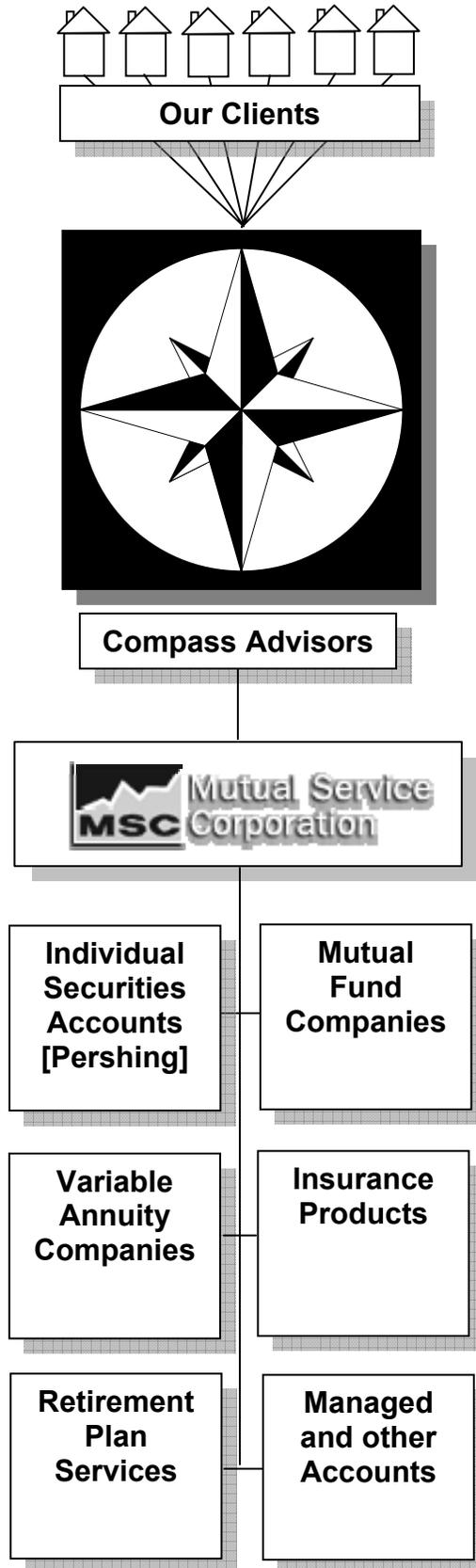
We describe what we do in three words: Chart, Navigate, and Arrive. We are here to serve you and your loved ones.

## Mutual Service Corporation

Mutual Service Corporation is an independent broker/dealer which serves as our back office. Through MSC we have access to literally thousands of high-quality investments and each one is independent of MSC.

Every registered representative is required to have a broker/dealer and we have been happy to work with MSC since the 1990's. Because MSC does not have any "in-house" products we are free to recommend investments we believe are in the best interest of our clients.

By structuring our business in this way we are able to offer you top-quality investments and financial services in accordance with industry best practices.





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*The information and data on which opinions herein are based are derived from sources believed to be reliable. However, neither Mutual Service Corporation, Compass Advisors or any affiliated individual assume any responsibility for the accuracy of such information and data. Investments in securities involve risks, results cannot be guaranteed.*

# CHART ◆ NAVIGATE ◆ ARRIVE

## Strategies You Can Use

### Shhh! I Have an Investment Secret

At the core of every great fortune is a singular secret. Few have learned the secret and even fewer have been able to harness its power.

Recognizing powerful concepts requires experience. Applying those concepts and tapping into their full potential demands discipline which is rare indeed.

The great secret on which all great fortunes have been built is to save: to store wealth rather than to consume it.

### There is No Substitute

In order to build wealth we must save. No other single investment strategy will provide as great a benefit as disciplined saving.

A dazzling investment strategy will bear little fruit if the funds invested are small. Brilliant investment selection is of limited value if gains are earned on meager savings. Time can be a potent ally but even fabulous performance over a long period cannot overcome a paltry nest egg.

A famous oriental proverb says that a journey of a thousand miles begins with a single step. Likewise, a trove of treasure begins with the decision to save.

### Not for the Faint of Heart

Some consider this secret to be unappealing. Every day millions of dollars are spent on lottery tickets, speculative investments and colorful plastic chips in hopes of avoiding the need to develop this discipline. Spending is easy, saving is hard.

Saving requires restraint. The siren song of stuff is constantly in our ears but stuff is expensive. After we purchase it we pay more to finance it, protect it, repair it, store it and insure it. Saving is a powerful habit; it grows from inner strength and a long-term view of life.

### What do you Really Want?

If you desire a comfortable future, a well-stocked storehouse, a foundation of financial strength, save. If you want to retire and stay retired, to care for children or grandchildren, to provide a shelter from the storms of life

for yourself and your loved ones, save.

There is no substitute for saving and it is within the reach of all. After over twenty years in the investment business I believe the greatest single secret to financial success is to save regularly.

