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Investment Directions

Summer 2005

Disco Dancing Dow

Does it seem to you this recovery is going painfully slow? After the go-go markets of the late 1990's this is tough to take. If we look a bit further back it turns out we have done this dance before.

The chart on the right shows how similar the Dow Jones Industrial Average behaved thirty years ago after the last major downturn. The chart tracks the index from its high to its low then 30 months beyond.

Back in 1974 the market fell a bit farther and faster than we just experienced but the rebound has been remarkably similar. Both then and now after 30 months the index is about 10% below the previous high point. Little did we know at the turn of the century we would be doing the same dance we did in the mid-1970s.

Your Dance Floor

Charts and indexes can be deceiving. You cannot invest directly in an index so with different investments your performance is likely quite different too. A diversified mix of investments¹ is bound to act different than the 30 large American companies the Dow Jones Industrial Average tracks.

You have ready access to diverse markets opening new opportunities. You can easily invest in corporate and government bonds, real estate and in companies around the world.

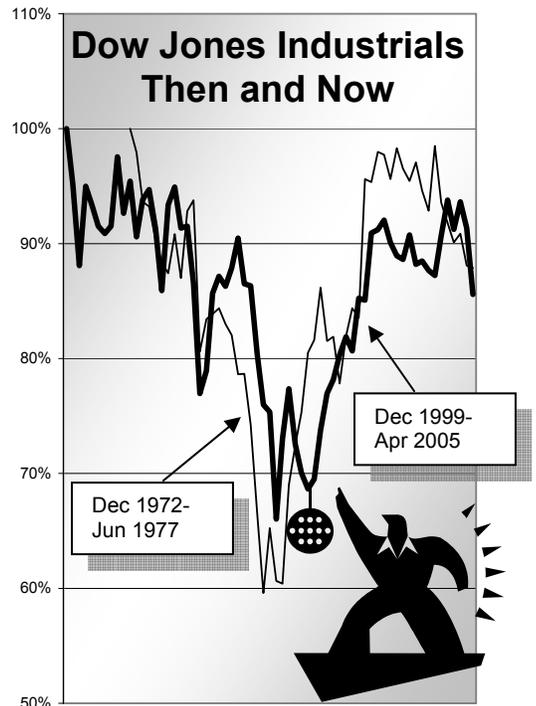
This ease of investment encouraged diversification which brought benefits for many investors in the past cycle. For example, bonds and smaller American companies performed quite a bit better than the Dow over the past five years.²

¹ Diversification does not guarantee against market loss.

² For the five years ended 6/30/2005: DJIA +1.69%, LB Agg. Bond +7.4%, Russell 2000 (small companies) +5.71. Source: Morningstar Principia. The Dow Jones Industrial Average is an index of 30 blue chip U.S. stocks. The Russell 2000 is a small-cap index which tracks the returns of the smallest 2000 firms in the Russell 3000 index, which is composed of the 3000 largest companies in the United States as measured by market capitalization. LB Aggregate bond index is composed of securities from Lehman

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Source: Media General Financial Services, Month-end index value for periods shown. Past performance does not guarantee future performance.

If you were invested in a diversified portfolio you may have seen better performance in your investments than the chart above would indicate.

Staying Alive

There are reasons to hope the upbeat recovery music of the past two years will continue. Consumer and corporate spending is high, companies are hiring again, dividends are growing and many companies are buying back their own stock. All of these things are good for investors.

Dick Clark might give this economy an 8 -- the beat is strong and it is easy to dance to.

So... the band is back, your friends are filling the dance floor and your partner beckons. The dust bunnies won't miss you, it is time to use those dancing shoes and enjoy the music!

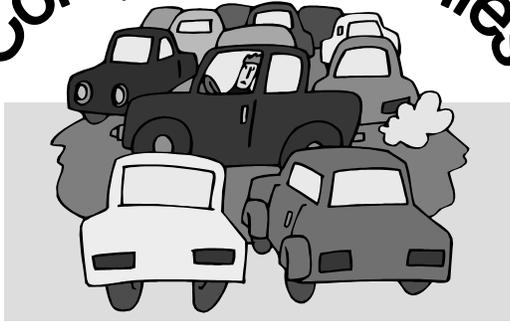
Government/Corporate Bond Index, Mortgage-backed securities index, calculated on a total return basis which includes price appreciation/depreciation and income as a percentage of the original investment. All indices are unmanaged. It is not possible to invest in an index.



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Compass Funnies



An old guy in his Volvo is driving home from work when his wife rings him on his car phone.

"Honey", she says in a worried voice, "Be careful! There was a bit on the news just now, some lunatic is driving the wrong way down the freeway".

"It's worse than that!" he replies, "There are hundreds of them!"



A prisoner in jail receives a letter from his wife: "Dear Husband, I have decided to plant some lettuce in the back garden. When is the best time to plant it?"

The prisoner, knowing that the prison guards read all mail, replied in a letter: "Dear Wife, whatever you do, do not touch the back garden. That is where I hid all the money."

A week or so later, he received another letter from his wife: "Dear Husband, You wouldn't believe what happened, some men came with shovels to the house, and dug up the entire back garden."



The prisoner wrote another letter back: "Dear wife, now is the best time to plant the lettuce."

Famous People Infamous Quotes



"Outside of the killings, Washington has one of the lowest crime rates in the country," --Mayor Marion Barry, Washington, DC.

"Half this game is ninety percent mental." --Philadelphia Phillies manager, Danny Ozark

"We are ready for an unforeseen event that may or may not occur." --Al Gore, VP

"Your food stamps will be stopped effective March 1992 because we received notice that you passed away. May God bless you. You may reapply if there is a change in your circumstances."--Department of Social Services, Greenville, South Carolina.

"I love California. I practically grew up in Phoenix." --Dan Quayle

"The word 'genius' isn't applicable in football. A genius is a guy like Norman Einstein." --Joe Theisman, quarterback and sports analyst

"We are not without accomplishment. We have managed to distribute poverty equally." --Nguyen Co Thatch, Vietnamese foreign minister

Integrity



Absolute Standards

Integrity in wealth management has never been more important than today. You must have the utmost confidence in your representatives.

Compass Advisors is dedicated to providing you high quality advisory services with honesty, integrity and professionalism. This is the very foundation of our business.

We carefully screen our partners from literally hundreds of financial services firms and choose to do business only with those which share our commitment to quality and service.

You can rely on us to adhere to a code of conduct. Among the rules and principles we follow are these standards:

- 1- **We will communicate clearly prior to any action.** All recommendations will be compared and contrasted to alternatives. Fees, charges and risk factors will be clearly spelled out.
- 2- **We will propose a disciplined investment process.** This is usually accompanied by a written investment policy statement. Investments will be consistent with the policy statement.
- 3- **We will comply fully with industry standards and regulations.** Processes will be in place to assure adherence to these rules. Audits will be conducted regularly and errors will be corrected immediately.

- 4- **You will receive top quality products and service.** We will serve you with respect and professionalism, lesser quality products and services will not be recommended.

In this complex industry where confusion and misunderstandings may occur, we are on your side. Our recommendations will be based on your situation, with your future in mind.

We will help simplify the choices facing you allowing you to use your time doing what brings you joy.

Compass Advisors is committed to serving you with integrity. We value our relationship and recognize you have placed your trust in us. We will look out for you and your loved ones.



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Strategies You Can Use

Wealth Care: Providing Retirement Income

After decades of working, taking the step out the door and into retirement can be a giant leap in your life. Your preparation will be critical. How can you increase the odds you will be happy?

One way is to plan to avoid surprises. Nothing is more dispiriting than to have your plans dashed by an unexpected downturn in your income or investments.

You may be able to avoid such surprises by going in with your eyes open. Understanding the real world impact of volatility is crucial.

The Arithmetic of Loss¹

If an investment gained 10% for three years in a row, the average annual total return would be 10%.

Year 1	+10%
Year 2	+10%
Year 3	+10%

Average annual total return +10%

But if the next year the investment had a 10% loss, the average annual total return for the four-year period would drop to 4.6%.

Year 1	+10%
Year 2	+10%
Year 3	+10%
Year 4	-10%

Average annual total return +4.6%

To get back to an average annual total return of 10% over a five-year period, the investment would need to gain 34.4% in the fifth year. Few conservative investments could potentially provide that kind of return in one year.

¹ This illustration is purely hypothetical. No specific investment is implied and your returns may vary.

This illustrates the real world impact of volatility and points out the wisdom of being more conservative in retirement.

Once you have retired you may choose to work and find it satisfying. Being forced to work in retirement to make ends meet is seldom satisfying and may be discouraging.

Opting for Balance

Most folks retire late in life when there is less time to make up for unpleasant surprises. The key to lower volatility in retirement is to try to avoid an unexpected financial downdraft.

Stability is a valuable asset in retirement. For some this may mean fewer stocks and more bonds and cash in their portfolios. For others a traditional pension may provide a base of income stability.

For those who don't have a traditional pension but who want that kind of stability perhaps an investment with some kind of income guarantee would be appropriate.² For example a fixed immediate annuity paying a steady monthly income might provide a measure of stability.

Beyond the Dollars To Happiness

In my experience it is not the size of your nest egg that brings happiness but your wealth relative to your expectations. As you plan for retirement I recommend you set realistic expectations. Choose your neighbors carefully and adopt a lifestyle you can realistically afford. You don't want to feel like you are the only one on the block who didn't get to Europe this year.

Family, good friends and a modest lifestyle can be more rewarding than a holiday in Holland. Plan now to be happy.

² Guarantees are based on the claims-paying ability of the issuer.