Compass Advisors

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Investment Directions

Winter 2009

"It was the best of times, it was the worst of times. It was the age of wisdom, it was the age of foolishness… it was the spring of hope, it was the winter of despair; we had everything before us, we had nothing before us…"
Charles Dickens

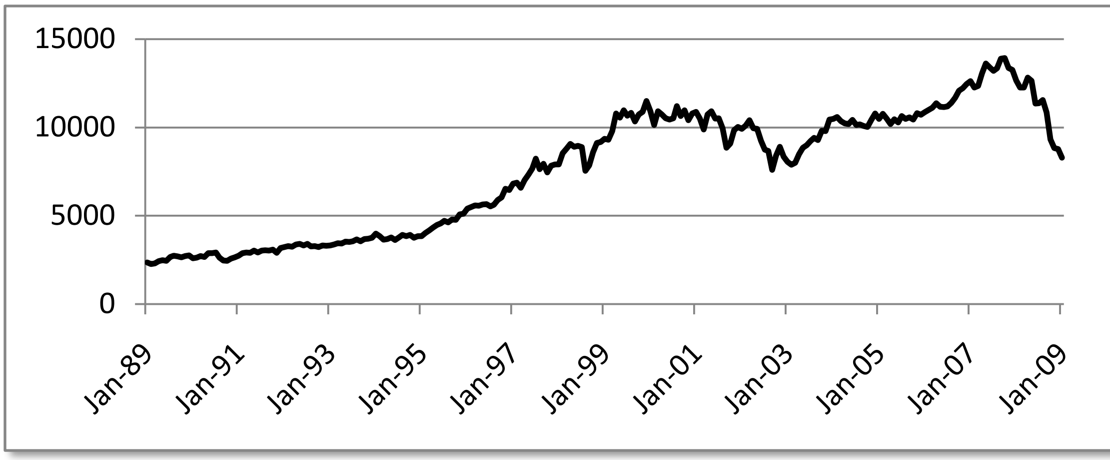

CHART ✦ NAVIGATE ✦ ARRIVE

In times like these you may be able to relate to the opening lines of A Tale of Two Cities, quoted above. While we enjoy bounty above any previous generation, our hopes can be shaken by unexpected events. It is often the unpleasant surprises that cause us to grumble and wonder about our lot in life.

You might ask: What is to be done in times like these? That is a wonderfully broad question and many ideas come to mind. I will stick to two principles of investing:

1. Common Sense

Common sense is hard to retain when we are immersed in common foolishness. We are often tempted to follow the crowd on the path of popularity and away from wisdom. It is hard to buy low, nearly as hard as it is to sell high. Common sense requires an uncommon amount of courage.

When all the news seems bad and stocks are beaten down who wants to buy stocks? Or Oil? Or real estate? When everyone knows U.S. Treasury bonds and gold have been pushing upward and getting all the good press, who wants to sell them?

Despite our natural inclinations, I believe common sense will be rewarded… eventually.

2. Discipline

Sticking to a strategy when it doesn't seem to be working feels terrible. I understand the urge to abandon ship but I advise against it. In times like these, discipline becomes particularly valuable.

Purposeful diversification, while not a magic potion, is still a good idea. It will encourage us to hold bonds when stocks look stellar, stocks when bonds seem bullish and cash when that seems crazy. Purposeful diversification helps us avoid the trendy, the touted and the totally wrong.

Discipline encourages skepticism about new types of investments. That is what sunk the financial sector. Most new investments are designed to enrich those who created them. If they are solid, time will bear them out.

This is not to say your strategy should be set in stone. If your needs change your strategy should adapt to that change. This is a time for common sense, discipline and hope.

The chart above is of monthly closing prices for the Dow Jones Industrial Average, an unmanaged index of 30 stocks which does not accommodate direct investment. Past performance does not guarantee future results. Historical stock prices provided by CSI, Inc.

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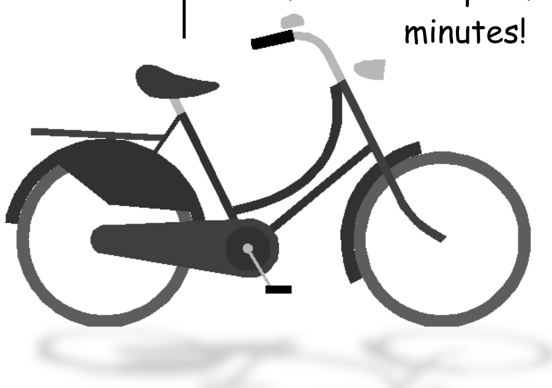
Strange Facts

From StrangeFacts.com

The state of Florida is bigger than England!

It is illegal to drink beer out of a bucket while sitting on a curb in St. Louis!

In Tokyo, a bicycle is faster than a car for most trips of less than 50 minutes!



There are 18 different animal shapes in the Animal Crackers cookie zoo!

Most lipstick contains fish scales!

More Monopoly money is printed in a year, than real money printed throughout the world!

Bats always turn left when exiting a cave!

If you counted 24 hours a day, it would take 31,688 years to reach one trillion!

The average life span of a major league baseball is 5-7 pitches!

A quarter has 119 grooves on its edge, a dime has one less groove!

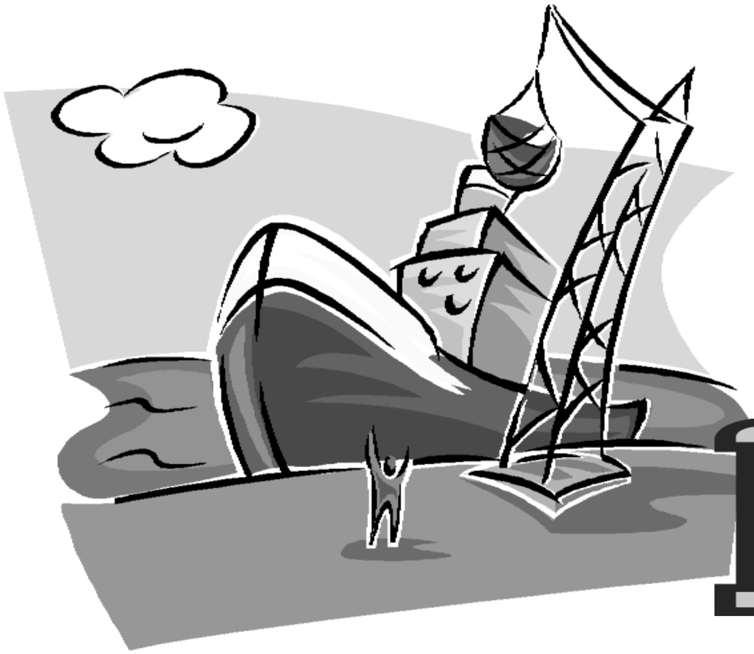
Hummingbirds can weigh less than a penny!

In Natoma, Kansas, it's illegal to throw knives at men wearing striped suits!

There are more plastic flamingos in the U.S, than real ones!

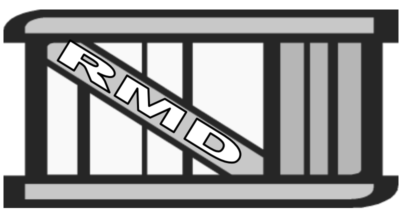
More people use blue toothbrushes, than red ones!

Re-Loading Your Retirement Boat



Following the financial storm which battered our boats over the last few months, many retirement accounts are in need of re-supply. Now is a good time to check your cargo and do what you can for the journey ahead.

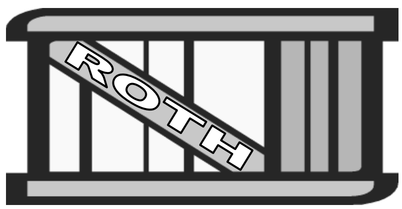
Every person's situation is different but I'd like to propose three actions to consider if your retirement plan is down in value. Some of these ideas may work for you; others may be valuable for someone you know.



At age 70 ½ current tax law requires a person with an IRA to begin taking Required Minimum Distributions (RMD) from their account. The penalty for not taking a required distribution is normally quite stiff.

Late last year congress passed legislation that waived required distributions for 2009. If you are set up for an automatic payment from your retirement account you may want to stop it this year. If you are taking distributions that are not required you may want to reconsider those too.

Not taking a distribution means you will not have to sell while prices are at this level, you will not have to pay tax on the distribution, and you may have significantly more money in your account to use later.



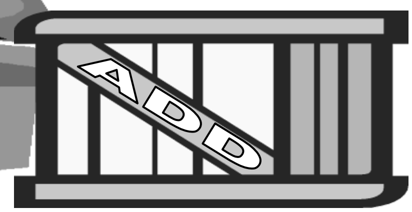
Roth IRAs were created to give people an alternative to a traditional IRA. Rather than being tax deferred like a traditional IRA, a Roth IRA is designed to be tax free.

All contributions to a Roth IRA go in after taxes are paid and when eligible distributions are taken they come out with no tax owing. This is one of the few ways you can invest in stocks and not pay income tax on any gains.

Persons with traditional IRAs can convert their balances to a Roth IRA but there is a catch: taxes must be paid on the money when you convert it. Knowing that, few people have made the switch.

Today the arithmetic has changed. If your IRA is down significantly in value you may want to consider converting it to a Roth. If you believe your value may rebound over time or that tax rates may be higher in the future, the conversion may be even more attractive.

Converting an IRA to a Roth may be painful in the short term but in the long run may provide real benefits.



While we cannot control returns on our retirement savings, we can control how many dollars we save. If you want more dollars available in retirement, one way to achieve that is to put away more dollars while you are working.

If you have a retirement plan where you work, contribute. If your employer matches your contributions, take all they offer.

If you qualify for a Roth IRA, contribute. If you prefer a traditional IRA and can deduct the contributions, contribute.

I believe in regular saving for retirement. I believe Wall Street just went on sale. I believe disciplined saving even in hard times, maybe especially in hard times, will be rewarded. If you can afford to contribute, contribute.

I do not, cannot and should not give legal or tax advice. Your situation is unique, please check with your legal and or tax advisor for advice specific to your situation. To qualify for a Roth, a single person must have taxable income of $105,000 or less and a married person filing jointly must have income of $166,000 or less. Only qualifying distributions are tax free.

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Strategies You Can Use

Your Ideal Portfolio Should Fit and be Solid

When I was a kid my grandfather had an ingenious camp stool that seemed to fit me perfectly. The seat was a leather triangle with pockets at the corners. The legs were attached at the middle so they could rotate flat for carrying then splay out and tuck into the seat corners for sitting. It was a remarkably simple yet stable stool.

A quality portfolio should be like that: it should fit you and be solid. Here are three characteristics of a good portfolio.

Discipline

Discipline in investing means beginning with the end in mind. It requires charting a course and sticking to it. Discipline is at the core of our Chart, Navigate and Arrive process.

When we invest with discipline we avoid emotional decisions and instead allow our strategy to drive our choices. When we are disciplined we are more likely to buy low and sell high.

If we don't have discipline we run the risk of getting disoriented as Yogi Berra once famously said: "You got to be careful if you don't know where you're going, because you might not get there."

Discipline provides daily direction to avoid wandering off course.

Diversification

Here at Compass Advisors we believe in purposeful diversification. We diversify because we hope to pass safely through turbulent seas, not that we expect the storm to cease or our ship to suddenly sprout wings. Diversification is a tool, not a magic bullet.

A portfolio may be strengthened by diversifying between asset types, asset classes, management companies and individual securities. When we choose each component carefully, they can complement each other.

Some people, perhaps even people you know, prefer to rush into the storm with a surfboard. Karl Wallenda, the famous tightrope walker, once said: "Being on the tightrope is living; everything else is waiting."

I am no Karl Wallenda and if that means I am destined to wait, I can live with that. The point of diversification is to rely on a net rather than a tightrope.

Defense

I tend to be an optimist. I look for opportunities and try to take advantage of them. It is not contradictory to be an optimist and also to invest defensively.

Being defensive means you can believe the sun will come out tomorrow and yet not bet your bottom dollar on it. Optimists are right most of the time but not all of the time.

This is sometimes called "Black Swan Theory." Black swans exist but are extremely rare. Just because most swans are white we should not deny the existence of those that are black.

So, when rain falls unexpectedly on your parade, be Gene Kelly. Carry an umbrella; dance if you want to. The trick is to expect the unexpected and be prepared.

To apply this to investing I recommend balance. Even aggressive investors should probably own some bonds and cash. It is not a waste of resources, it is "dry powder" for when you may need it.

If your portfolio is not disciplined, diversified and defensive, we should talk.