Investment Directions

WINTER 2018

Volatility is Back!

After an impressive 2017 and a strong start to 2018, the value of America's great companies dropped significantly in February. To put this in context, consider the following facts:

1- The year 2017 was the first in history that the S&P 500 closed higher (on a total return basis, including dividends) all 12 months of a calendar year.
2- The index went more than 400 trading days without a 5% correction -- the longest stretch in history.
3- In 2017 the S&P 500 was positive year to date every single day – that is rare, having happened only ten times since 1950.

That is the very definition of stability. In 2017 and for the first part of 2018 volatility went on holiday. That is what we call in the investment industry – weird. Volatility is normal, stability like we saw in 2017 is decidedly abnormal.

Reverting to the Norm

Returning to more normal conditions should not surprise us but it did. The talking heads on TV were apoplectic. Many wondered if we were on the brink of a precipice, teetering on the edge of disaster. Alas, no. Buyers returned and prices stabilized without experiencing a 2008-level, stomach-churning drop.

It appears the economic environment of lower personal taxes, lower corporate taxes and strong economic news was enough to provide a floor – at least for now – for prices.

Admittedly Wall Street is an imperfect marketplace and almost anything can happen. Individuals with strong emotions, coupled with computer generated trading, can create a roller-coaster of price swings. February clearly proved that. Where we are ultimately going is not certain but I believe history provides reason for optimism.

My Point of View

In my opinion, volatility is here to stay. Some of us remember when a 20 point swing in the Dow Jones Industrial Average was reason for concern but now hundreds of points may be the new 20.

In my opinion we have a strong foundation on which to build. This does not feel like a bubble so much as a groundswell of value built on earnings, lower taxes, government spending and improved economic growth.

Interest rates may indeed rise, internet retailers may crush some brick and mortar stores and some of America's great companies may struggle. Despite all that we would do well to look forward with hope and not fear the immanent start of a second great depression.

CHART
✦
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Old Jokes Never Die… They Just get Recycled!

Dumb Knock,Knock Jokes From the Past

Knock, knock!
Who's there?
Jamaican!
Jamaican who?
"Jamaican me crazy."

Knock, Knock
Who's there? Annie!
Annie who?
Annie one you like!

Knock, Knock
Who's there?
Mary Lee!
Mary Lee who?
Mary Lee, Mary Lee, life is but a dream. Row, Row….

Knock, Knock
Who's there?
Teddy!
Teddy who?
Teddy is the first day of the rest of your life.

Knock, Knock
Who's there?
Sam & Janet!
Sam & Janet who?
Sam & Janet evening, you will meet a stranger…!

Knock, Knock
Who's there?
Alex!
Alex who?
Alex the questions round here!

Knock, Knock
Who's there?
Gus!
Gus who!
Gus you don't want to play anymore?

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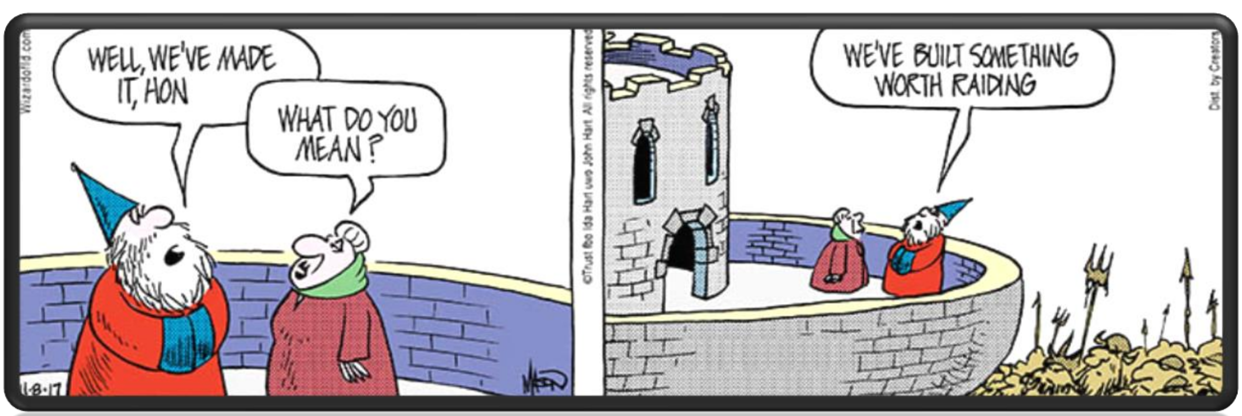

Foundational Principles

In order to have confidence in your financial advisor you need to know what your advisor believes. At Compass Advisors the following principles form the foundation of our practice.

We Believe in Owning Equities

A decision an investor must make early on is whether to "own" or "loan." In our view owning makes a lot of sense; the growth potential of equity-type investments make them valuable for many long-term investors.[1]

We Believe in Asset Allocation

Stocks, bonds and cash each act differently and when combined properly, each can be a valuable component of a portfolio. We believe the greatest value of allocation is its potential to address volatility.

We Believe in Avoiding Big Losses

We believe avoiding losses is at least as important as making gains. We employ several strategies in an effort to limit losses and design portfolios with an eye toward participating in up markets and minimizing losses when investments turn down.

We Believe in Purposeful Diversification

We believe purposeful diversification, combining different types of investments with a goal in mind, may be able to benefit virtually every investor.[2] By creating model portfolios tailored to individual needs we aim to provide a superior investment experience.

We Believe in Rebalancing

After starting out with an appropriate investment mix, it is important to monitor performance and make adjustments over time. Left unadjusted, portfolios may grow out of balance and over time may change character rather dramatically. By regularly rebalancing we strive to retain the proper balance.

We Believe in Sleeping Well at Night

Prudent investing, even conservative investing will often experience ups and downs. We strive to avoid the more speculative and volatile investment strategies which we believe may be uncomfortable and potentially less profitable. We want you to feel comfortable with both the growth potential and the expected level of volatility.

We Believe in Keeping it Simple

Simple strategies are often easier to understand and sustain. Overly complex arrangements can be confusing and difficult to manage. We believe you may be more satisfied and more committed to a plan that makes sense to you and does not require great effort to maintain.

We Believe Professional Help Can Improve Your Quality of Life

Most people don't enjoy managing money as a hobby. Using professional help allows you to delegate the task and spend your time doing what you enjoy – perhaps golfing, fishing, gardening or sailing. A person could build a home from materials at Home Depot, but few do. Similarly, we believe hiring a team of financial professionals makes sense.

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[1] *This is not an offer to sell securities, which may be done only after proper delivery of a prospectus and a client suitability review.*

[2] *Diversification does not assure against market loss.*

COMPASS ADVISORS

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The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual.

To determine which investments may be appropriate for you, consult your financial advisor prior to investing.

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

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.

Rebalancing a portfolio may cause investors to incur tax liabilities and/or transaction costs and does not assure a profit or protect against a loss.

CHART ♦ NAVIGATE ♦ ARRIVE

New Tools for New Times

Your Ideal Portfolio Should Fit You 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 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 needed direction and helps us avoid wandering off course.

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 may complement each other.

Some people, perhaps even people you know, prefer to rush into a 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, I value a safety net … sometimes I even value a hammock …

Defense

Optimists look for opportunities and try to take advantage of them. In my world optimism is a virtue. It is not contradictory to be an optimist and to also invest defensively.

Being defensive means you can believe the sun will come out today and yet carry an umbrella. Optimists are not right all of the time.

Extreme outliers or “Black Swans” exist. Sometimes extreme outliers, when they occur, have an oversized impact precisely because they are so rare.

When rain falls unexpectedly on your parade, be Gene Kelly. Carry an umbrella, dance if you want to, be prepared.