



COMPASS
ADVISORS

CHART
◆
NAVIGATE
◆
ARRIVE

Investment Directions

Winter 2011

The “Great Recession” is what Wall Street is calling the 2008 dramatic dip in stock prices. Now, these many months later we are beginning to see indications that the pendulum may be swinging back.

While Wall Street is awash in opinion on the best economic indicators and every Economist has a favorite sure-fire statistic to watch, I’d like to propose four commonsense indicators which may provide reason for optimism for the days ahead. Personally, I am encouraged by what I see.

Economic Tail Winds

The economy is gaining ground slowly, showing signs of improvement in fits and starts. During the last part of 2010 manufacturing activity increased, the service economy recorded gains and consumer confidence rose.

An outfit called the Conference Board generates an index of leading economic indicators comprised of ten independent variables which they say predicts the direction of the American economy. In 2010 the index increased sharply¹ which I take as at least a good sign. I believe our economy is improving and that should be a boon to investors.

Corporate Profits

Many companies have used the recent economic downturn to improve their balance sheets, build cash positions and generally strengthen their financial foundations. Much has been made of the high unemployment resulting from corporate downsizing. The

flip side of downsizing is potentially higher profit.

In recent months, profits seem to be returning. For all U.S. companies, the Bureau of Economic Analysis estimates pre-tax profits in the 3rd quarter of 2010 rose to \$1.7 trillion. That is the highest figure since the government began keeping track 80 years ago.² Profits may be another positive sign for investors hoping for higher stock prices.

Dividends

After a period of time when dividends paid by America’s great companies were meager and dropping, that trend seems to have changed. For a number of reasons, companies have begun to be a bit more generous in their dividend payouts.

As of the end of 2010 there were 50 companies in the S&P 500 with dividend yields above the average interest rate on corporate debt. That is the second highest number in 20 years. Those 50 companies paid an average dividend of 5.2% while corporate bonds paid a 4% average yield.³

Politics

Admittedly politics are fickle but I am a believer in the lessons of history. Since 1940, the third year of an election cycle for president has been good. The S&P 500 has been positive each time and 13 of the 17 times it was up over 10%.³

Ok, this time it could be different, those running for re-election might run into problems that even promises of sensational sunrises for everyone cannot overcome. Perhaps just the hope that politicians will say nice things about America could be considered a positive sign.

If there’s a train every day leaving either way, you will find me travelling with the optimists.

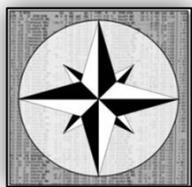
² Nominal terms, not adjusted for inflation. Source: www.bea.gov.

³ The S&P 500 is an unmanaged index of 500 large American companies, you cannot invest directly in an index. Based on data from Standard & Poors; corporate bond data based on Barclays Capital U.S. Corporate Index.

¹ www.Conference-Board.org

Produced by
Randal L. Nicholls
(253) 661-3100
(877) 334-3100

Suite 208
33600 – 6th Ave. So.
Federal Way
Washington 98003



COMPASS
ADVISORS

(253) 661-3100

(877) 334-3100

A Wee Bit o' St Patrick's Day Humor

A Young Irishman sat at a pub in the New World drinking beer and conversin' with the barkeep. Another comes in and sits besides him. He says how you do and hears the lilt and says you be Irish? Yes I am. The first man yells barkeep give us another round and one for my friend here he's from the mother country as well.

The second man asks-so where in the old country ye from. Dublin responds the first. Dublin you say - so am I and the second man hollers barkeep bring us another round and a shot of your best Irish Whiskey for me and my friend here. Afterwards the first man asks from where in Dublin and the second man responds with the street and the first man says well I'll be - so am I and yells barkeep another pair of beers and Irish Whiskey for the pair of us.

The phone behind the bar rings and the barkeep answers it. The owner of the pub asks - how is business. The barkeep responds - not too bad - The O'Malley twins are here getting drunk again.



Kelly's Soft Sugar Cookies

Cookies:

- 2 cups sugar
- 1 cup butter
- 2 eggs
- 1 ½ cup sour cream
- 4 tsp vanilla
- 7 cups flour
- 1 tsp salt
- 2 tsp baking soda

Combine first five ingredients; add flour, salt and baking soda. Chill 1 hour, roll, cut into appropriate shapes. Bake 375 degrees, 6-10 minutes. Frost when cool.

Icing:

- 1 cup shortening
- 1 cup butter
- 2 tsp vanilla
- 2 lb powdered sugar
- Milk

Combine measured ingredients; mix in milk to desired consistency.



LET'S TALK ABOUT...

OUR GREAT NATION

I am an unabashed defender of America and of our place in the world. I believe we are a positive force on the planet and a benefit to all the people in it. As a nation we are creative, we work hard, and we have abundant resources. We enjoy freedom, we have an enviable constitution, we accept the rule of law and we are a good people -- a moral people who are willing to sacrifice for others. We are competitive, talented and driven to greatness.

We produce for ourselves and for the world quality capital goods: airplanes, telecommunication tools, machine parts and computer technology. We make desirable consumer goods: cars, medicine and technologically advanced equipment. We are the entertainment capital of the world and feed people around the globe with our abundant agricultural products.

Demand for these products and services will be strong from our own people who will be well paid to produce them and from other developed countries that look to us for innovation and quality. Increasing demand will come from developing countries like China, India and Brazil as they yearn to benefit from our manufacturing and technical abilities. We are the best in the world at building critical infrastructure like airports, hospitals and conduits for commerce.

We are not without our challenges. We lack unity, occasionally disagree on priorities and have the inevitable bad actors among us. We struggle to implement the principles of democracy and capitalism in a way that is fair to all our people. We sometimes fall short of our opportunities but we are a good nation, a vibrant nation, a nation which I believe will excel in the years ahead. I believe we have done much for the world in years past and will yet do much good in the future. I am proud to be an American.



COMPASS
ADVISORS

(253) 661-3100
(877) 334-3100

CHART
◆
NAVIGATE
◆
ARRIVE

Produced by
Randal L. Nicholls

Securities, Financial Planning and other Advisory Services offered through LPL Financial, a registered investment advisor and member FINRA & SIPC. Compass Advisors and LPL Financial are not affiliated companies.

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. All indices are unmanaged and cannot be invested into directly. Stock investing involves risk including loss of principal.

CHART ◆ NAVIGATE ◆ ARRIVE

New Tools for New Times

News Flash 1979:

On August 13, 1979, Business Week was moved to publish an issue emblazoned across the cover with the headline:

THE DEATH OF EQUITIES How inflation is destroying the stock market

At the time, the Dow Jones Industrial Average¹ had sunk to 830, more than 20% below its prior high of 1051 reached six years prior. Investor uncertainty had given way to despair which was reflected in the Business Week headline.

Perhaps we can relate to those fears. The stock market was not dead of course but investor psychology was laid bare for all to see. I believe there is much to learn from those days.

Foolishness of the Educated

The article in Business Week began with a lamentation of how many shareholders had fled the stock market in search of greener pastures. The following passage is insightful: "Only the elderly who have not understood the changes in the nation's financial markets, or who are unable to adjust to them, are sticking with stocks."

The foolishness of that statement is surpassed shortly after by this: "We have entered a new financial age. The old rules no longer apply."

Vindication for Senior Investors

In the 1979 article a young executive is quoted as saying "Have you been to an American stockholders' meeting lately? They're all old fogies. The stock market is just not where the action's at." Oh to be young again and so certain of life.

¹ The Dow Jones Industrial Average is an index of 30 large American Companies which does not accommodate direct investment. There is no assurance that any company will pay a dividend in the future.



We now know that inflation did not kill the stock market, in fact the Dow Jones Industrial Average more than tripled over the next decade². Fear is a poor foundation for financial planning.

The years have proven the elderly were not so much stupid and incapable as they were wise and patient.

Wisdom

What might we learn from this angst and hand-wringing? First, don't believe everything you read. Even the well educated can get caught up in a herd mentality. Second, inflation, while not good for all investments will likely be good for some. If we can learn from the past we may be able to profit from it.

² The article references the Dow at 830, on 12/31/1989 it closed at 2753. Source: The Wall Street Journal.

Additional Notes: International investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors. The market value of corporate bonds will fluctuate and if the bond is sold prior to maturity, the investor's yield may differ from the advertised yield.