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Investment Directions

Summer 2008

I've got good news and I've got bad news...

The bad news you already know: most of America's great companies are down in value in the past year. Jobs are being cut; the unemployment rate was 5.5% in June.

Home values are down generally and banks have been hit hard. The price of a barrel of oil at this writing is over \$125 and a gallon of gas costs more than \$4.00.

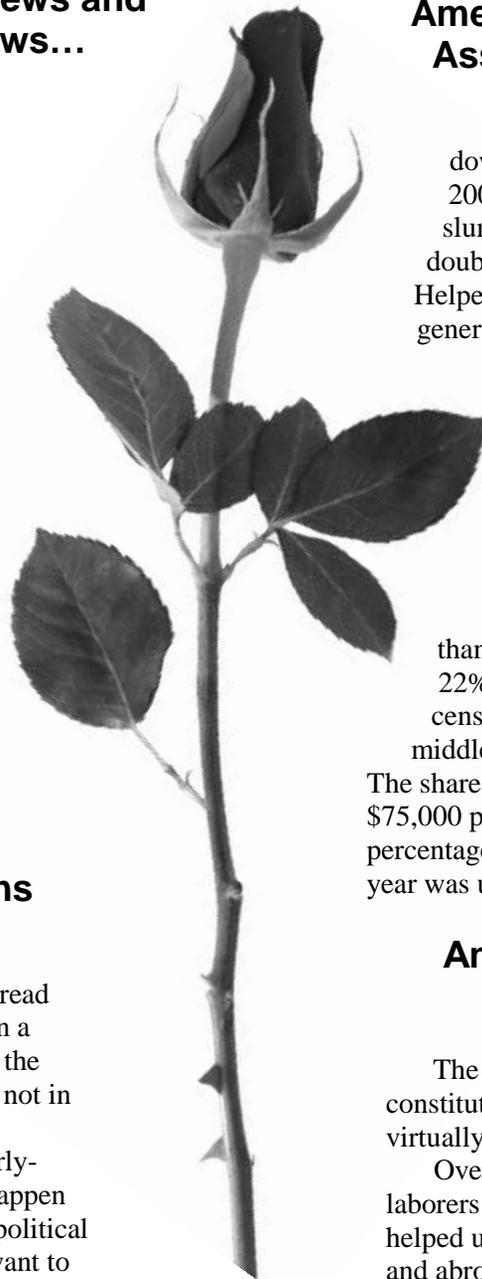
You could put lipstick on that pig but it would still be a pig. The economy is in a painful downturn.

Roses and Thorns

If you believed everything you hear and read you might think we are in a recession. This is where the good news starts: we are not in a recession.

A recession is a clearly-defined event and they happen rarely. Some who have political or other motives might want to fudge the definition but facts are stubborn things as Mark Twain famously said. The downturn is real, many people are hurting financially but this is not the great depression and it is not a full-blown recession.

Even in the best economic times some sectors struggle. The economy is like a long-stemmed rose -- we get to choose whether to focus on the rose or the thorns. Me, I am a rose kind of guy; I tend to focus on the good news.



American Family Assets are Growing

While home values are indeed down from their peak, we are still at 2005 levels.¹ Even after the recent slump, current prices are more than double what they were a decade ago.² Helped by rising home values and generally increasing stock prices, real household net worth is up significantly this decade. That is good news.

Our Income is Growing

We are making more money than ever. Average hourly pay is up 22% in the past decade.³ The last census showed both the poor and the middle class are making more money. The share of households earning less than \$75,000 per year was down while the percentage earning more than \$75,000 per year was up. That is good news.

America's Economy is Healthy

The freedoms we derive from the constitution have enabled us to excel in virtually every industry in the world.

Over the years our hard working laborers and visionary leaders have helped us overcome setbacks at home and abroad. Today our national output or GDP leads the world and has increased 26% this decade alone. That is good news.

Shakespeare wrote: "A rose by any other name would smell as sweet." There is much to appreciate about this rose if you can get past the thorny bits.

¹ Zillow.com Quarterly home value report 3/31/08

² S&P/Case-Shiller index

³ U.S. Bureau of Labor Statistics report.



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"Check our insurance policy. Is our company covered for damages caused by a flood of stupid decisions?"

Welcome

Josh Nicholls has joined our team while he is home from college for the summer. He is attending Brigham Young University studying information systems (a fancy way of saying computers) and we are grateful to have him helping us.

If Josh calls to set up an appointment or answers the phone when you call in I hope you will say hello!

Wisdom from the Garden

Gardening and laughing are two of the best things in life you can do to promote good health and a sense of well being.

David Hobson



Everyone has enough weeding to do in their own garden
Flemish proverb



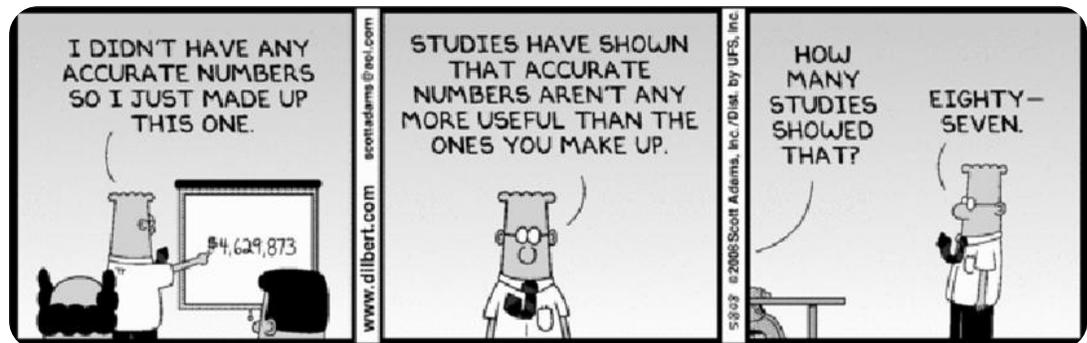
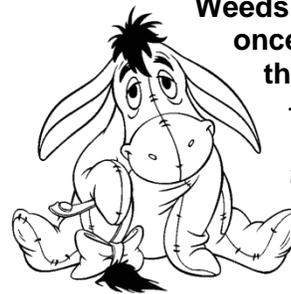
Sweet flowers are slow and weeds make haste.

William Shakespeare

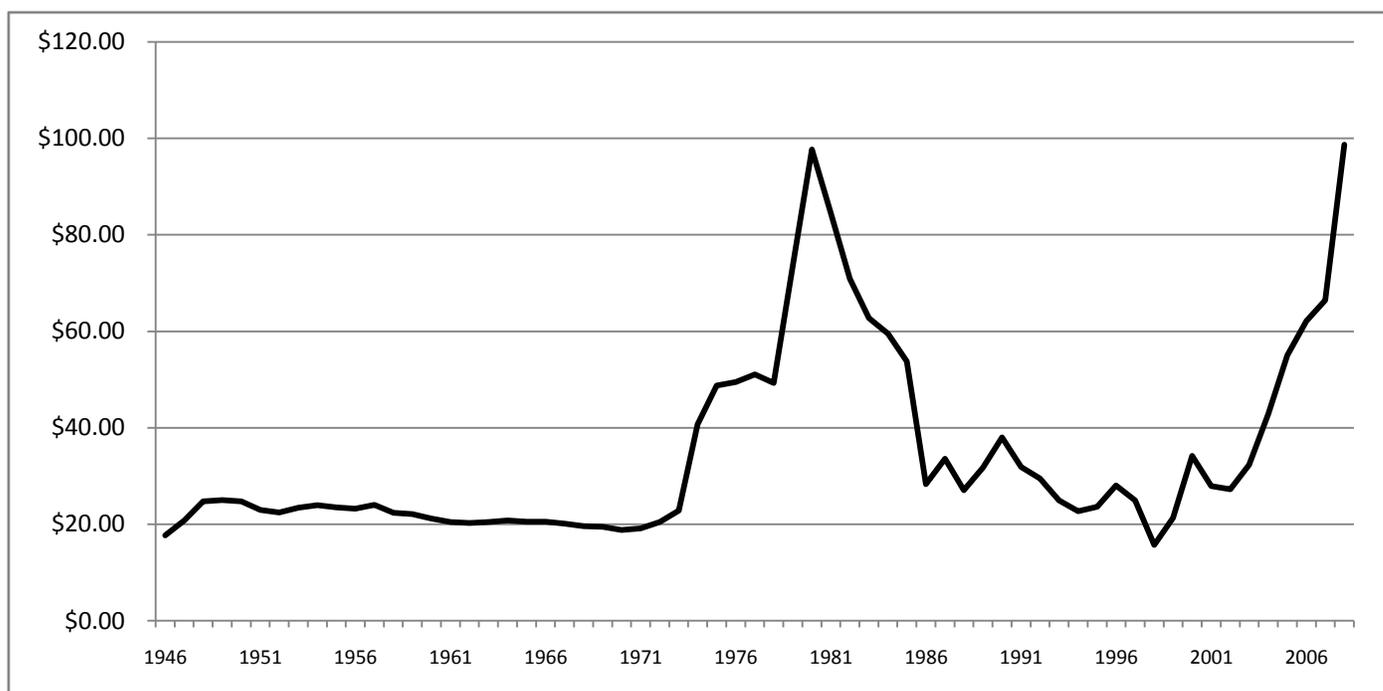


Weeds are flowers too, once you get to know them

- A. A. Milne,
Eeyore from *Winnie the Pooh*



The Price of a Barrel of Oil: A Bubble or Just the Beginning?



This chart shows the annual average crude oil price from 1946 to the present. Prices are adjusted for inflation to April 2008 prices using the Consumer Price Index (CPI-U) as presented by the Bureau of Labor Statistics. Since these are annual averages they will not show the absolute peak price but average free market (stripper) prices of Illinois Crude as presented by IOGA.

Group #1

Some, seeing the recent rise in oil prices conclude this is just the beginning of a long run of price increases. This group believes our current supply and demand outlook will remain relatively unchanged and that prices will never significantly decrease. Limited supply and increasing demand from around the globe will inevitably push oil prices to ever higher levels. This group would say we have reached or will soon reach “peak oil” – the point at which we will consume more oil than we discover. This scarcity of a limited natural resource they

believe will push prices higher in the days and years ahead.

Group #2

Others conclude the recent increase in price is a bubble that will one day burst similar to the early 1980’s. This group believes supply and demand are likely to change over time. Supply could increase as higher prices motivate oil producers to find new reserves and more efficiently tap existing ones. Demand might not be as high as expected as people choose to use less and find alternatives to high priced petroleum. This second group believes “peak oil” is nowhere in sight and that

the forces of a relatively free market will lead to lower prices in the days and years ahead.

My Opinion

I believe the second group has the better argument. Commodities often move in boom and bust cycles. You may recall as I do massive Towncars in the used car lots and Pintos chasing Hondas on the roads. Oil boomed, oil busted and this time SUV’s fill the used car lots. We may not be driving Pintos but this feels awfully familiar to me.



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Strategies You Can Use

Strategy #1: Save for the Future

Saving for the future has always been the best way to build up a nest egg. At times like these when storms rage and the future seems particularly uncertain our commitment to saving can waiver and we may be tempted to save less or stop saving altogether. Bad idea.

In mythology there is a place where a ship may sail over the edge of the earth and into an abyss. This place is fictional but in financial matters many people still worry about a similar spot where all can be lost in an instant.

In my experience structurally sound ships usually weather storms and seldom fall off the edge of the earth. This perspective makes saving for the future easier.

Saving Requires Sacrifice

Of course saving is not the hard part, deciding to go without new stuff is the hard part. Madison Avenue – which is a euphemism for profitable companies the world over – is quite good at reminding us what we don't have: new stuff, shiny stuff, electronic stuff. There is no end to stuff. But stuff has its limits.

Stuff cannot truly satisfy. Soon after you buy one bauble something newer and better comes out. If we expect stuff to make us happy we will surely be disappointed.

Saving for the future requires we recognize this fact and get off the merry-go-round. Once off, we can choose to be satisfied and even grateful. We may find we can afford all we need, some of what we want and save some too.

That is easy to say but hard to do.



What is the Payoff?

Money too has limits. Money can't buy love and it can't buy happiness for long. It can perhaps provide three things of value which may help you be happy:

Doing what you love.

If we save enough we may be able to accept less pay and do what we love to do, maybe even make the world a better place. Having purpose and a work we love may also help us live longer.

Worrying less.

This is not a given but an opportunity. Some who have money still worry about every move of the market but they have the opportunity to worry less if they choose to.

Spending time with loved ones.

Perhaps the greatest source of happiness in life is time spent with family and friends. Having money may provide more time to spend with the people we love.

I recommend saving for the future.