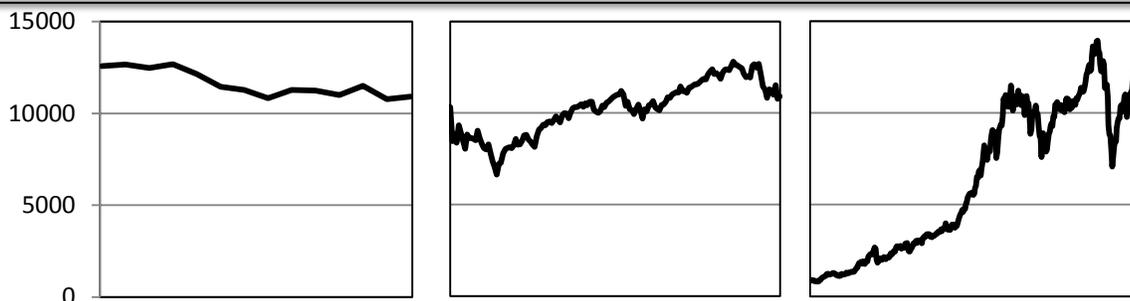


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Investment Directions

Fall 2011

Dow Jones Industrial Average Performance



"You cannot prevent the birds of sorrow from flying over your head, but you can prevent them from building nests in your hair."
Chinese Proverb

What We Can and Cannot Control

The charts above are for perspective¹. While this doesn't change the tough patch we just went through, it can provide some hope for the future.

Next year marks my 30th year in this business. One lesson I have learned is that there are things I can control and things I cannot. Success in investing and in life is much more likely if we focus on what we can control.

We know the value of America's great companies is driven by news, politics, media and investor emotion. We can neither accurately predict nor change the events of the days ahead. We can, like a weathered sailor, watch the winds and waves knowing that beyond the horizon surprises await us.

You might reasonably ask: "What then can we control?" To which I reply: "Much that matters."

What Counts

We can identify clear goals and likely obstacles. We can identify best practices and

research the course we propose to follow. We can take a big-picture approach and maintain discipline even as circumstances change.

It is tempting to imagine night will never end or the gale will never cease blowing but experience teaches us change is constant. Each day is unique, different from the last.

Perhaps the most important thing we can control is our will to persevere and achieve our goals. Winston Churchill said: "Success is not final, failure is not fatal: it is the courage to continue that counts."

America the Beautiful

Despite some loud opinions to the contrary, I remain optimistic about the future of America and our economy. I do not believe our trusty ship is headed for the rocky crags of history. I believe our best days are yet ahead.

Yes, we have challenges: dysfunction in the halls of power; natural, economic and political problems around the globe; war and threats of war abound. We have seen all this before and have prospered in spite of it all. I expect America to exhibit economic resilience as we push through our current troubles.

I believe in purposeful diversification², managing investment costs and taxes and in careful portfolio construction. I believe in discipline and patience. I believe our future is bright and a steady investment approach built on sound principles will be rewarded.

¹ The Dow Jones Industrial Average is an unmanaged index of 30 large American Companies which does not accommodate direct investment; The charts above all end 9/30/2011; past performance does not assure future returns.

² Diversification does not assure against loss.

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Looney Laws

The trouble with lawyers is we need them to navigate the maze of laws the politicians think up. Here are a few examples of crazy laws -- as nutty as they sound I understand they are all real:

Texas

You may not shoot a buffalo from the second story of a hotel.

Oklahoma

It's forbidden to take a bite out of another person's hamburger.

Tennessee

Selling hollow logs is strictly forbidden.

New Hampshire

It's forbidden to sell the clothes you're wearing to pay off a gambling debt.

Kentucky

Every citizen is required to take a shower once a year.

Massachusetts

No gorilla is allowed in the backseat of any car.



Florida

If you tie an elephant to a parking meter, you must pay the same parking fee as you would for a vehicle.

Minnesota

It's illegal to paint a sparrow with the intent of selling it as a parakeet.

Alabama

It's illegal to wear a fake mustache that causes laughter in church.

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LET'S TALK ABOUT...

WHAT IS FINANCIAL PLANNING?

The Objective

The objective of financial planning is not just to build wealth. When done right financial planning should coordinate your retirement plans, tax planning, estate details, business and other issues.

Our process begins by asking about your current situation and your goals. This allows you to do as Stephen Covey suggests in his book *Seven Habits of Highly successful People*: “begin with the end in mind.”

You should be confident in the course which you will ultimately pursue.

The Plan

The next step depends on you. You need alternatives and proposed actions to help you reach your goals. A good plan will address the three phases of your financial life:

- 1- immediate needs and emergency preparedness,
- 2- pre-retirement wants and needs, and
- 3- longer-term, particularly retirement savings.

A written financial plan may be one page or many but it should help you embark on your chosen course. I have seen huge documents which reach out decades but I find such books less helpful than an ongoing personal relationship.



The Journey

Once the initial course is charted and the investment approach is defined, an ongoing dialogue ensues. Lives change, the economic environment changes and course corrections will surely be needed. Sometimes this can be done with minor rebalancing; occasionally it takes a major course correction, the action being determined by your goals, your investment discipline and mid-course events.

As you are surely aware, we have many tools to help inform our decisions and correct course as we travel through the years. These tools are constantly improving and changing but the purpose of the tools is always the same: to help you achieve your objectives.

The Destination

While there are intermediate objectives such as funding a child's education or beginning retirement, we hope to be helpful for years more. We plan to stay with you to care for your retirement income, unexpected family needs and estate planning details.

Financial planning, if done right, has the potential to benefit your family and loved ones for generations to come.



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New Tools for New Times

CAUTION: PORTFOLIO CONSTRUCTION ZONE

As with any construction project the building plan is essential. When building an investment portfolio the blueprint is based on your goals. It makes no sense to use a pre-drawn plan for a beautiful cathedral if what you need is a comfortable family home.

After a building plan is in place, the challenge becomes execution. Quality building requires knowledge, skill and a pickup load of experience.

DALBAR, a research firm, documents how hard execution can be for investors in its "Quantitative Analysis of Investor Behavior." Each year there is a gap between investor returns and investment returns; in other words, stock investor's returns often do not match a stock index's return.

In a recent study covering the twenty years from 1991 to 2010 DALBAR calculated the "average equity fund investor" earned an average annual return of 3.8% while the S&P 500 Composite Index had an average annual return of 9.1%.ⁱ This gap is the problem a portfolio builder tries to solve.

Closing the Gap

The gap is caused by our natural tendency to invest when times are good and get out when times get tough. That is a prescription for buying high and selling low - not the most effective approach if profit is your goal.

To close the gap a portfolio builder must overcome emotion in times of volatility and hold to an investment discipline that is consistent over time.



We have developed such a discipline by looking both back and forward.

Execution

We look back for guidance and study market cycles, interest rate trends, economic growth patterns and other markers. While past performance does not guarantee future results, it can be instructive.

We look forward with judgment and make projections based on common sense, patience and experience. Having thus developed our view of the future we recognize that our judgment may not always be correct and allow for that when we invest.

We strive to implement industry best practices: purposeful diversificationⁱⁱ helps us avoid the temptation to gamble and we select investments which work well together.

The ultimate goal of any portfolio construction is the same: help you as an investor stay on track and pursue long-term success as defined in your personal blueprint.

ⁱ Source: DALBAR average equity investors data. DALBAR uses data from ICI and S&P to compare mutual fund investor behavior and simulate the "average investor." S&P 500 index is an unmanaged index of 500 large U.S. stocks which does not accommodate direct investment.

ⁱⁱ Diversification does not assure against loss.