Investment Directions

SPRING 2018

The Bull is 9!

Since our last edition of this newsletter, the current bull market turned 9 years old which is like 90 in bull-years. It was on March 9, 2009 that the S&P 500 closed at 676.53, which was the low close for the worst bear market in stocks since the Great Depression. Nine years later, this ranks as the second longest bull market since World War II. Only the 1990's bull market lasted longer and had larger percentage gains.

Historical Perspective

During the nine years of this current bull market, the S&P 500 Index increased nearly fourfold. The total return (including dividends) was 385% while the index (excluding dividends) rose almost 300%. Looking back, the performance has been impressive. It may feel like stocks did nothing but go up but in 2011 the bull run nearly ended when the S&P 500 experienced a correction of 19%.

In 2015 we saw another correction, this time of 14%. Then, earlier this year, we had the fastest 10% correction from new highs ever (nine days) and the first quarter ended lower, which stopped a streak of nine quarterly gains. Clearly, stocks have seen their share of ups and downs.

Old Age

Fortunately, bull markets do not end based on a calendar. We may see this nine-year run stretch to it's 10th birthday and perhaps beyond. Often, the end of a bull market is brought about by what a former Federal Reserve Chairman famously called "irrational exuberance." Excesses like overspending, overborrowing or overconfidence can potentially tip a bull market to a bear.

Our View

Based on our research of leading economic indicators, we believe the end (a 20% drop from the market high) is *not* near. That said, the market is quite mature in bull-years and some indicators would invite caution. Proposed tariffs are concerning as are inflation fears and relatively high stock valuations. Despite all this, LPL research continues to project double digit gains in 2018. We see strength in fundamentals like global demand and corporate profits. I am not buying party hats just yet, but in my view a 10th birthday looks more and more likely.

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The Standard & Poor's 500 Index is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries. All indexes are unmanaged and cannot be invested into directly. Past performance is no guarantee of future results.

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Pinterest Wisdom

I want to be like a caterpillar. Eat a lot. Sleep for a while. Wake up beautiful.

Chocolate comes from cocoa which is a tree. That makes it a plant. Chocolate is salad.

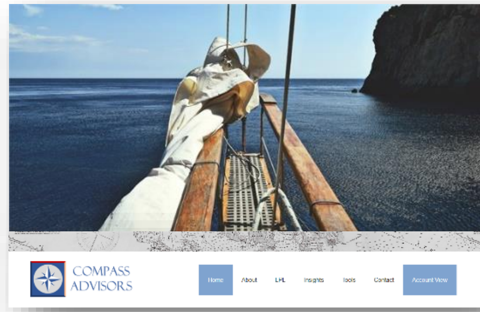
I never run with scissors. Those last two words were unnecessary.

Cupcakes are muffins that believed in miracles.

Some things are better left unsaid. Which I generally realize right after I have said them.

The early bird can have the worm, because worms are gross and mornings are stupid.

I did a cartwheel the other day thinking it was like riding a bike. It's not.



CompassAdvisors.net

Have You Seen This?

It has been a long time coming … our updated website has finally launched! You will now find an updated look, research publications from LPL, back issues of our "Investment Directions" newsletter and much more.

We are particularly pleased with the new link to AccountView – click the button to get 24-hour, secure online access to your account information. Performance, statements, tax information and more is available from your computer, tablet or smartphone.

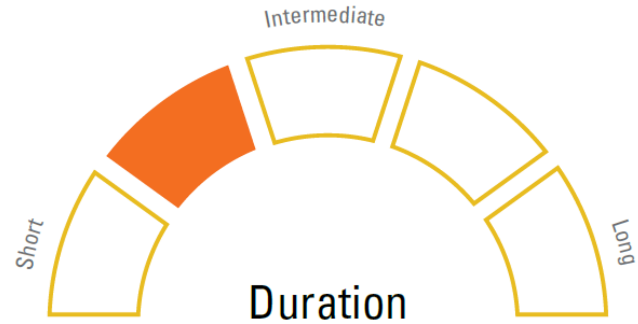
Say hello to secure, constant, anywhere access – and it is just a click away! We hope you will check out all the resources available at CompassAdvisors.net and if you have not yet signed up for AccountView, please give us a call and we can set that up for free!

Wizard of Id Comic Strip © John L. Hart FLP, printed with permission. www.johnhartstudios.com

With the launch of the new CompassAdvisors.net website you now have access to several resources you may find valuable. One I particularly like is the Portfolio Compass published by LPL Research each month.

You will find it located under the "Insights" button, then click on LPL Research. Every month the Portfolio Compass is updated to reflect LPL's view on stocks, bonds and alternative investments. Those broad categories are further broken down into sectors with an opinion on each on a scale of 1 (negative) to 5 (positive).

For example you can see LPL's opinion on large companies versus smaller companies, U.S. stocks versus foreign stocks or municipal bonds versus U.S. Treasury bonds. Sectors, like Energy, Technology and Healthcare are also rated.

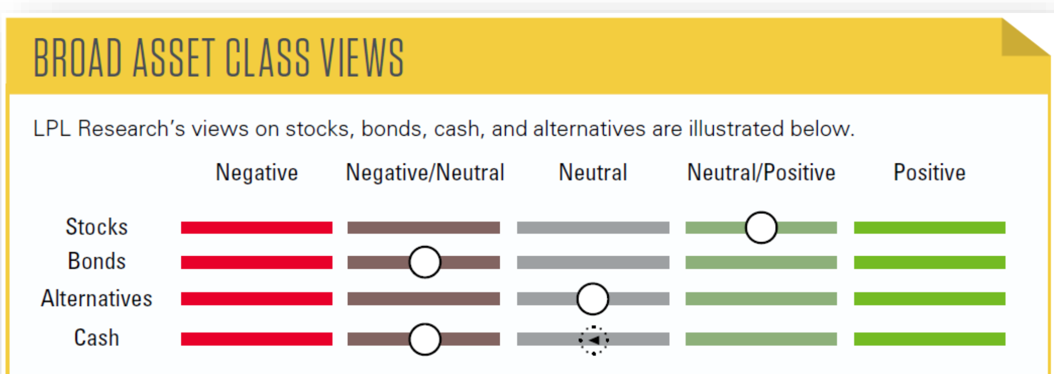


The report is colorful and easy to follow. For example, the graphic above is from the April 2018 edition, it shows LPL currently favors shorter bonds over longer maturities. The graphic below is also from the April edition and ranks stocks as "neutral/positive" (4 on a scale of 1-5) and bonds as "negative/neutral" (2 on that same scale).

You may be wondering about the term "Alternatives" -- Alternative Investments include event driven strategies and option strategies which involve significant risks and may not be appropriate for all investors. If we haven't talked about those there is probably a reason.

I recognize not everyone is interested in this level of "inside baseball" facts and data but if you like this sort of stuff I think you will find the publication very informative. LPL shows you what they are watching, gives you their macroeconomic thoughts, and highlights recent changes and the reasons behind those changes.

We at Compass Advisors are committed to providing you with the top-notch service, information and tools that advancing technology can deliver. The Portfolio Compass is just one example of the level of service we provide.



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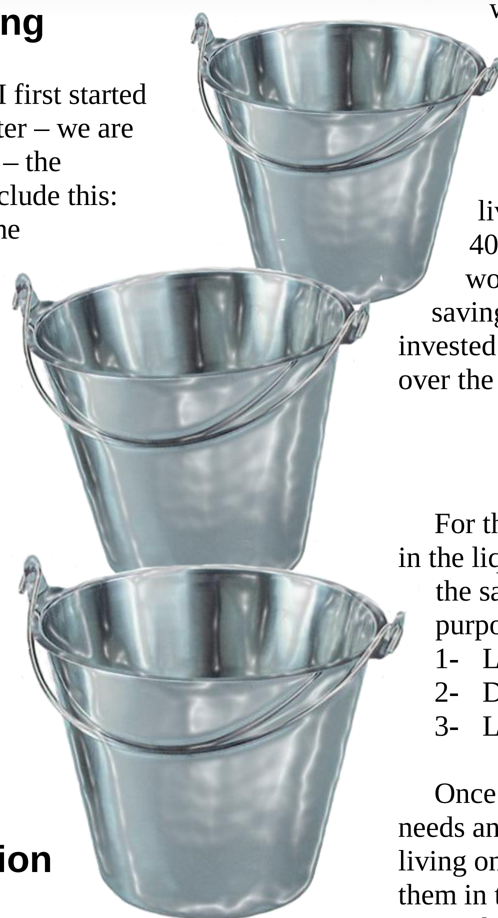
New Tools for New Times

Three- Bucket Investing



Years ago when I first started writing this newsletter – we are talking decades ago – the masthead used to include this: “Idea #1 Save For the Future.”

Saving can be hard and investing can be daunting. Part of my job is to help people overcome those hurdles. One idea I picked up along the way is a three-bucket method to make saving and investing more achievable.

Accumulation Phase

If you are working and looking forward to retirement you are in what we call the accumulation phase. In this phase, your three buckets may be:

1- Emergency/Living funds
2- Pre-retirement savings
3- Retirement savings

You may be adding to each of the buckets every month, the difference is what the funds are to be used for.

Your first bucket is for immediate needs – food, clothing, shelter, and surprises when they arise. You will probably want to keep these funds in the bank for ready access.

The second bucket is for longer-term wants or needs: children’s education, a new car, or maybe a second home. If your intended use is two years out or longer, you may choose to invest these funds.

The third bucket is what you will live on in retirement. If you have a 401k or another retirement plan at work that is part of of your bucket 3 savings. These dollars are usually invested to keep ahead of inflation and taxes over the years until retirement.

Liquidation Phase

For those who are already retired, you are in the liquidation phase. The concept stays the same but the buckets are for different purposes. Your buckets may be:

1- Living expenses
2- Discretionary spending
3- Legacy assets

Once again, bucket 1 is for immediate needs and unexpected bills. Since you are living on these funds you will likely keep them in the bank.

Bucket 2 is for additional items outside your normal living expenses: travel, gifts, larger entertainment items. If the need is a couple of years off, you may invest the money.

Bucket 3 now becomes assets you plan to leave to your heirs: children, family, charity, etc. A good legacy plan may involve different investments and legal or other preparation to make it a reality.

Whether you are in retirement or still dreaming about it, debt is a hole in your bucket. Debt is not a disaster, you can still achieve your dreams, but it is working against you. The sooner you can pay it off the better.