



COMPASS  
ADVISORS

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

CHART  
◆  
NAVIGATE  
◆  
ARRIVE

Produced by  
Randal L. Nicholls  
& Kristal L. Miller

Suite 208  
33600 – 6<sup>th</sup> Ave. So.  
Federal Way  
Washington 98003

# Investment Directions

Summer 2006  
productivity.

## A Blast from the Past

The financial media immerse us in a minute by minute view of the world and as a result it is easy to lose perspective. Perhaps this would be a good time to take a step back and consider the long term view.

To that end, consider the chart at right which illustrates the monthly closing prices of the Dow Jones Industrial Average for the past 40 years.<sup>1</sup>

If you have seen your share of birthday candles you may recall the 1960's and 1970's when the Dow struggled to break 1,000. These were cold war days. Our nation saw political intrigue, wage and price controls and spiraling inflation.

A greater number will remember the breakout decade of the 1980's as the Dow pushed through 1,000 then through 2,000. Optimism reigned and the Berlin wall fell.

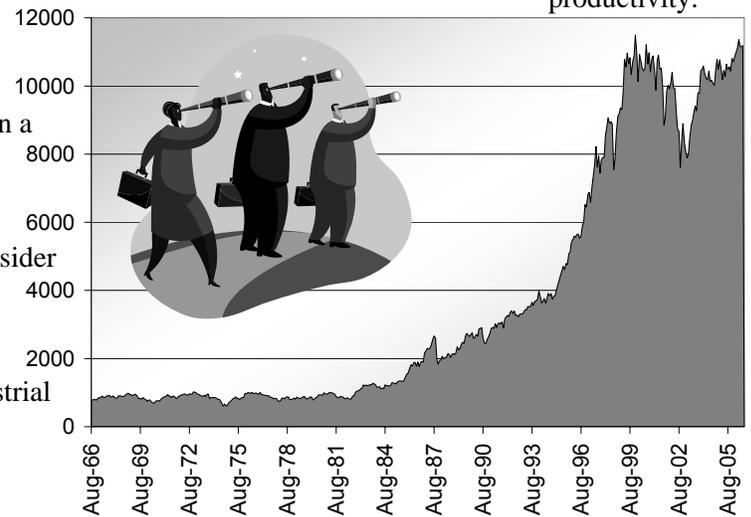
Most of us experienced the 1990's when the U.S. emerged on the world stage as the sole super power, technology blossomed and some voiced concern about "irrational exuberance."

Who can forget the first few years of the new millennium, the bursting bubble and the recent rebound? We are living in a cautious time; uncertainty abounds and the economy moves ahead amid increased volatility.

## Seeing Through a Glass Darkly

We have voices all around us at this critical juncture, eager to predict the future of the economy and the world. Not surprisingly, few of those voices agree.

Is the glass half empty or half full? The current price of oil is worrisome and it is a limited resource. The first of the baby boomers are turning 60 this year and their retirement could indeed lead to lower



Interest rates have been rising, war is raging in the Middle East and the economy seems to be going nowhere fast.

On the other hand, if the situation in the Middle East improves, oil could come down in price. That could reduce pressure on inflation and interest rates and the economy could rebound. If baby boomers keep working and staying active they could live longer and healthier lives and contribute to economic growth.

So which is it? Are we on the verge of a break down or a blast off?

## The View from Here

Personally I do not worry about the graying of America. Most of my clients are living longer, working longer and staying active longer than their parents. Since seniors often have greater wisdom and skills than younger workers I see this as a plus for the economy.

As for inflation, interest rates and energy prices, I believe in recurring cycles. Higher oil prices mean greater opportunity for alternative sources of energy. I believe peace will eventually prevail. I believe America will adapt, remain strong and be a leader in the world.

I am a glass half full kind of guy. I see reason for optimism for our economy, our investments and our nation.

<sup>1</sup> The Dow Jones Industrial Average is an index of 30 blue chip U.S. stocks. All indices are unmanaged. It is not possible to invest in an index.



COMPASS  
ADVISORS

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



## Golf by the Rules

Two friends were playing golf one day. They decided they would adhere strictly to the rules with no improving their lie. After a few holes, one guy's ball landed on a cart path. As he reached down to pick up his ball to get relief his friend said, "We agreed that we would not improve our lie."

No matter how much the first fellow tried to explain that he was entitled to this relief, the second fellow would not allow it. So the man went to the cart to get a club. As he stood over the ball he took a few practice swings, each time scraping the club on the pavement, taking out big chunks of blacktop and sending out lots of sparks!

Finally, after several practice swings he took his shot. The ball took off and landed on the green about 6 feet from the pin.

"Great shot!" his friend exclaimed. "What club did you use?" "Your 7-iron!" he replied.

## Quotes from the Pros

"Reverse every natural instinct and do the opposite of what you are inclined to do, and you will probably come very close to having a perfect golf swing."

*Ben Hogan*

"Two things that ain't long for this world. Dogs that chase cars and professional golfers who chip for pars."

*Lee Trevino*

"When you play the game for fun... it's fun.  
When you play it for a living... it's a game of sorrows."

*Gary Player*

"Putting is like wisdom... partly a natural gift and partly the accumulation of experience."

*Arnold Palmer*

## IT'S A GIRL!

Kristal and her husband Dan welcomed their first child, a new baby girl, into the world this summer. Her name is Gretchen Lynn Gerdes and she was born on June 7th at 9:37 a.m. She arrived a bit early ...to everyone's surprise... weighing just 5 pounds, 5 ounces and 18 ½ inches long. She and Mom are doing great.

Congratulations to Kristal and Dan!



## What We Believe

In order to have confidence in your financial advisor you need to know what your advisor believes in. At Compass Advisors we want you to know the principles which form the foundation of our practice. Among them are the following:

### We Believe in Owning Equities

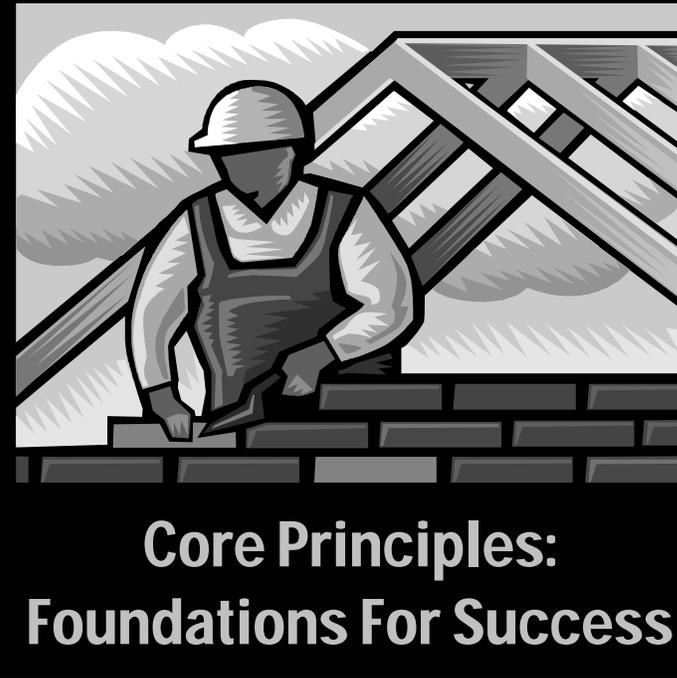
Equities include stocks, real estate investment trusts and hard assets. A decision an investor must make early on is whether to “own” or “loan.” In our view owning makes a lot of sense. The growth potential of equity-type investments make them valuable for many long-term investors.<sup>1</sup>

### 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 reduce 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



## Core Principles: Foundations For Success

minimizing losses when investments turn down.

### We believe in Purposeful Diversification

We believe purposeful diversification, a scientific approach to combining different types of investments, may be able to benefit virtually every investor.<sup>2</sup> By creating model portfolios tailored to individual needs we aim to provide a superior investment experience.

### We Believe in Rebalancing

After starting out with the appropriate investment mix, we believe it is important to monitor performance and make adjustments as appropriate. 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 of your investments.

### We Believe in Sleeping Well at Night

Prudent investing, even conservative investing will usually experience some ups and downs. We strive to avoid the more speculative and volatile investment strategies which we believe may be uncomfortable and 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 the best and tend to be easier to understand and sustain. Overly complex arrangements can be cumbersome and difficult to manage. We believe you may be more likely to have success with a plan that makes sense to you and does not require great efforts to maintain.

### We Believe in Professional Money Management

Most people don't enjoy managing money as a hobby. Using professional money managers allows you to delegate an unpleasant task and spend your time doing what you enjoy – perhaps fishing, gardening or sailing. For many investors, hiring a team of professional managers makes sense.

<sup>1</sup> This is not an offer to sell securities, which may be done only after proper delivery of a prospectus and a client suitability review.

<sup>2</sup> Diversification does not assure against market loss.



COMPASS  
ADVISORS

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

CHART  
◆  
NAVIGATE  
◆  
ARRIVE

Produced by  
Randal L. Nicholls\*  
& Kristal L. Gerdes

\*Securities and advisory services offered through Mutual Service Corporation, A Registered Investment Advisor. Member NASD/SIPC

*The information and data on which opinions herein are based are derived from sources believed to be reliable. However, neither Mutual Service Corporation, Compass Advisors or any affiliated individual assume any responsibility for the accuracy of such information and data. Investments in securities involve risks, results cannot be guaranteed. Compass Advisors is not affiliated with Mutual Service Corporation.*

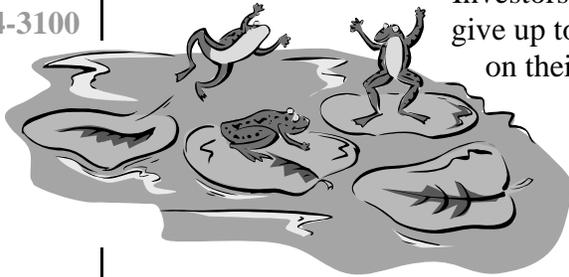
# CHART ◆ NAVIGATE ◆ ARRIVE

## Strategies You Can Use

### Staying the Course

Patience may be a virtue but impatience is much more common.

Investors often give up too soon on their



investments, constantly hopping from one investment vehicle to another – this carries a cost.

Over the 20-year period from 1984 to 2004, equity investors underperformed the S&P 500 index<sup>1</sup> by more than 8% annually.<sup>2</sup> Perhaps the biggest reason for that poor performance is that the average length investors held their investments was just 2.9 years.

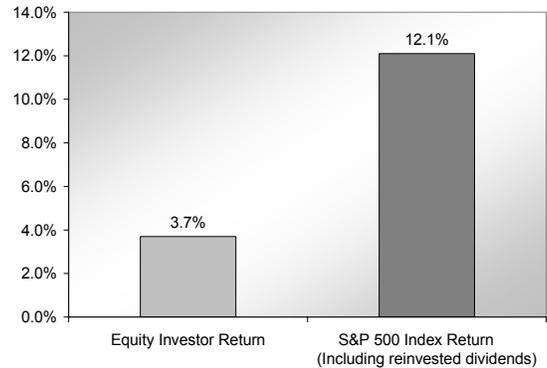
The average investor is impatient, but you don't have to be. Here are a few ideas to help you embrace in patience.

**First, set clear objectives.** Write down what you want. That might include a specific retirement date, a recreational vehicle or a vacation home. Then write down when you would like to attain those things.

There is power in writing down both what you want and when you want it. It becomes a firm objective that can be a guiding star for you. Having clearly defined objectives can help you make good decisions when times get tough.

<sup>1</sup> The S&P 500 is made up of 500 common stocks representing major US industry sectors.

<sup>2</sup> Source: DALBAR, "Quantitative Analysis of Investor Behavior," 2005. Indices are unmanaged and cannot be invested in directly. The percentages shown are annualized. Past performance is no indication of future results.



**Second, create a plan.** This should include a discipline for saving, spending and investing.

Your investment plan should be diversified, tailored to you and proven. You must have confidence in your plan so when the budget gets tight or the market goes down you will stay the course.

**Third, make adjustments.** Life is full of surprises, some good and some not so good. Your financial plan should be dynamic: moving you ahead and conforming to changing circumstances.

Oliver Wendell Holmes, the Supreme Court Justice once said: "We must sail, sometimes with the wind and sometimes against it – but sail we must and not drift nor lie at anchor." We should be committed to plotting course corrections and sailing on.

