COMPASS ADVISORS

Investment Directions

FALL 2015

Effective investing need not be complicated, in fact I believe it works best if kept simple. A simple but effective investment strategy might look like this: create a plan tailored to your wants and needs. Base that plan on proven principles. Stick to your plan through the ups and downs that will surely come.

Here are three principles on which you might build a strategy:

Buy Low

Every investor wants to buy low and sell high, how do you do that? The key to defining value is to look both ways before you cross that street. Looking backward to historical prices and measures of value and forward to predictions of future prices and value.

When looking backward, Wall Street pundits love to talk about not only price but how expensive a company's stock is relative to its earnings or sales or book value. Each company has historical norms one could consider to judge current value.

When looking forward one should consider the outlook for the company and the industry as well as changes in society and the marketplace. You will find many people willing to make predictions on Wall Street, your job is to decide what you believe.

Skip the shiny new products

Every year new financial products are introduced with an explosion of marketing fireworks. Most of these will not meet the lofty expectations of their sales brochures. I recommend waiting – both to better understand the investment and to allow for a track record to develop.

Simplicity

" Keep it simple in the kitchen. If you use quality ingredients, you don't need anything fancy to make food delicious: just a knife, a cutting board, and some good nonstick cookware, and you're set. "

Curtis Stone

I recall years ago when a shiny new product was introduced. It was a revolutionary new concept, nearly incomprehensible and sold as the best thing since night baseball.

It was market tested to hit all the hot buttons: your investment was backed by home mortgages, the loans were triple-A rated, and they were new!

Years later that mortgage-backed investment helped fuel the meltdown of 2008 leaving banks and individuals teetering on the brink of financial ruin.

New ideas are not necessarily better than the old ideas, I recommend you pass on hip new investments without track records.

Avoid the Noise

Let's be honest, most of the television shows about investing are rubbish. Entertaining and creative, yes, but the soothsayers and wise guys (and gals) provide little value to serious investors.

The soothsayers make a complicated case for what might possibly but won't necessarily happen tomorrow. The pundits confidently spin obscure facts into exciting conclusions like carnival clowns making balloon animals. More fun than factual.

The role of the host is not to be right or wise but to keep you watching the commercials because that is how they make their money. The result is noise: entertaining but lacking substance. I recommend you read a good book instead. *Security Analysis* by Benjamin Graham perhaps.

In conclusion, to invest effectively you need a good plan based on proven principles and then you need to stick to it. Simple.

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

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

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(253) 661-3100

(877) 334-3100

Top Ten Worst Christmas Gifts

1. Fruitcake
2. Exercise equipment
3. Automotive Parts
4. Used Clothes
5. Self Help Books
6. Re-gifted Gift
7. Socks
8. Singing fish
9. Underwear
10. Anything from an Infomercial

Words of Wisdom From C.S. Lewis

You are never too old
to set another goal
or to dream a new dream.

Failures, repeated failures, are finger posts on the road to achievement. One fails forward toward success.

Friendship is unnecessary,
like philosophy, like art…
It has no survival value; rather
it is one of those things
that give value to survival.

Education without values, as useful as it is, seems rather to make man a more clever devil.

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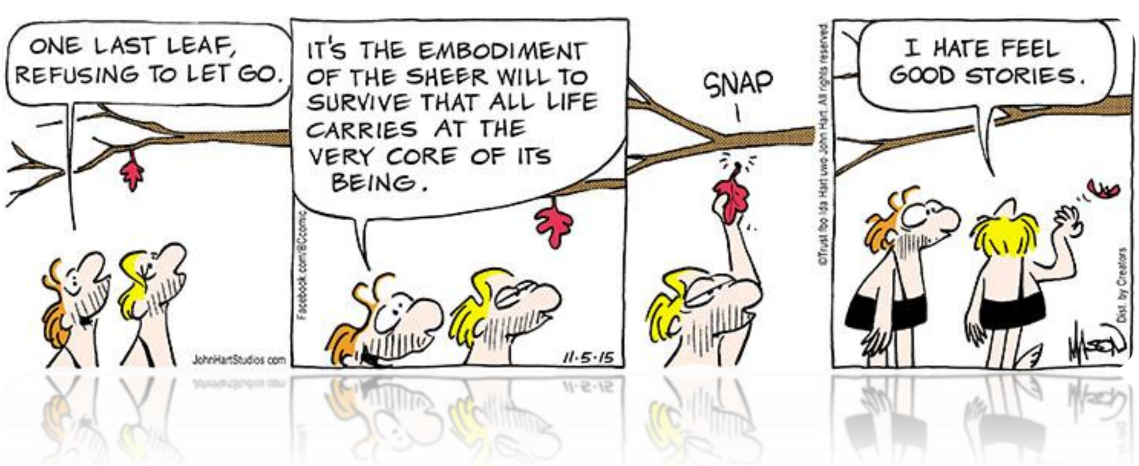
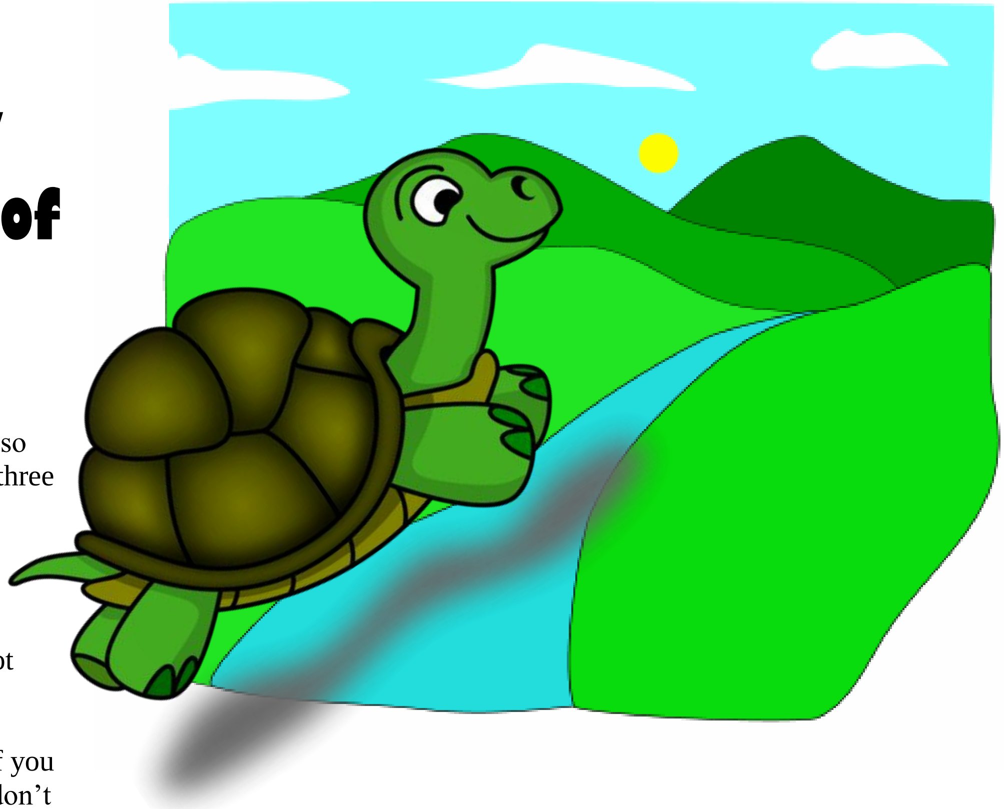


Going Slow with the Best of them!



Getting rich quick doesn't work, so how do you get rich slow? Here are three strategies to consider:

Start

Today is not too early and it is not too late. Whether the investment climate seems good or bad, high or low, the important thing is to start. If you don't save you won't invest. If you don't invest you won't be eligible for the potential returns to reach your financial goals. Start now.

My Grandfather was a relentless entrepreneur. He went broke three times before he succeeded and left a legacy which blessed generations after him. A generation later, in the turmoil of the 1960's my Father wanted to start his own business and went to my Grandfather for advice. What he got was priceless: "The economy is terrible. Now is the perfect time to start a business." He figured if you could make it when times were bad, you will do great when times improve. Dad followed that advice and did very well.

Start now and be relentless, never give up. As your savings grow, invest and you will be better prepared for whatever is to come. Save for the future, start now.

Be Patient

In the investment world we speak of the performance gap, the difference between market performance and investor performance. The gap is significant, due in large part to repeatedly bad timing. For example, it is tempting to chase performance, to look at what did well last year or last week and invest there. The problem is you are typically too late.

Rather than trying to outsmart the market I recommend patience. Trust your strategy. This can be difficult, particularly in down times, but often patience is rewarded in the investment world. Compounding only works for the patient.

Save Regularly

Americans are notoriously bad at saving and notoriously good at problem solving. The result is a challenge: our life expectancy is improving but our net worth is not. We run the risk of living poorer longer.

The solution is to save regularly. Even if the amount is small, save regularly and the savings will add up. The good news is it has never been easier to save automatically. Most financial institutions would be happy to help you. Banks do it, mutual fund companies do it, most any firm that deals with money can help you save a set amount on a regular interval: weekly, monthly, whatever works for you.

Regular saving is a critical discipline to a successful investment plan. While saving regularly does not assure you profits, it will help you build your net worth as you save more and spend less. If you are serious about growing your assets, save regularly.

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~~New~~ *Old* Tools for New Times – Discipline

Why is it Hard?

We often speak of the value of discipline when investing. Easy to say but hard to do. Discipline is hard for two reasons. First, we have to decide what principles we are going to be disciplined about (and each of your friends may have a different opinion). Second, holding to those principles will probably require some sacrifice.

Your discipline may require you sell the hot, talked-about stock and buy something unpopular. The kind of thing neighbors don't brag about at the mailbox.

Let's assume we can all handle that level of sacrifice and focus on the principles to which we are going to be disciplined. We have to believe in them enough to confidently commit.

Wayne Gretsky is quoted as saying "I skate to where the puck is going to be, not to where it has been." Here are two forward-looking strategies on the order of where the puck is going to be:

#1- Technology

The parade of new innovations is not likely to end any time soon. In my experience the politicians in the fancy cars come first in the parade, then the marching bands, the prancing horses and at the end, their scoop-shovel attendants.

In my view technology is in the fancy car phase, with lots of things to see before the scoopers hit the streets. I expect to see innovations in entertainment, communication, and at work. There may be value in the discipline to anticipate where this particular puck is going.

#2- Demographics

Another parade to watch is the demographics of the "Baby Boom" generation. More than 4 million babies were born each year from 1954 to 1964. Those babies, now grown up are turning 60 – millions of them every year.

They fueled the growth of the suburbs, made Gerber baby food a household name, rode Schwinn bicycles and spurred the development of strip malls and warehouse stores. Baby boomers have driven commerce and development throughout their lives. What will they need in the years to come? A diligent observer and disciplined investor may find value in the parade of changing demographics.

The opposite of discipline is disorganization; of those two, I recommend discipline. Be purposeful. Select a strategy that works for you, one you can believe in, and be disciplined.