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Investment Directions

Summer 2012

Dow Jones Industrial Average Performance April 1, 2011 – March 30, 2012



Ignorance is bliss... Until the screaming starts

One year ago we were blissfully clicking to the top of a rollercoaster about to start a rapid drop and a series of jarring ups and downs over the summer. July, August and September were especially... shall we say... interesting. As with most roller coasters the excitement is in not knowing what is coming next. When it is over we may laugh but in the middle of the ride we feel more like screaming.

The good news is by the end of the year we were back up near where we started. At the time of this writing we have grown further to over 13,000 on the Dow Jones Industrial Average¹. Some may reasonably ask: "Are we about to take another plunge like last year?" In my opinion, no; I believe we should not fear and indeed have reason to hope.

"The grand essentials of happiness are: something to do, something to love, and something to hope for."

Allan K. Chalmers

What Has Changed

First, the political and economic landscape is different. Last year was a near perfect storm as federal budget negotiations,

our AAA bond rating and Europe's economic woes all crashed together at once. We still have political and economic issues to be sure but they are different and in my view better.

Second, we are in an election year. Politicians will once again promise us the moon and tell us this time they will deliver.

The rhetoric is predictable and who knows, we may indeed see some change. Right or wrong we tend to believe them which gins up our optimism and, often, that of Wall Street. The election is a positive factor we didn't have going for us last year.

Finally, we are seeing a rebound after the big dip of 2008. This year I expect to see earnings grow, productivity improve and corporate spending provide a boost. We hope this will be reflected in the share prices of America's great companies. In my opinion the fear of a double dip has passed and we can focus on climbing out of the hole we have been in.

Here at Compass Advisors we believe in America's great companies and in investing for growth. We believe you should have a disciplined plan, begin with the end in mind, be vigilant and make course corrections. While this does not eliminate all surprises it can provide a basis for our hope and make the ride more enjoyable.

¹ The Dow Jones Industrial Average is an unmanaged index of 30 large American Companies. It does not accommodate direct investment and past performance does not guarantee future returns.

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Creative Calendaring



How does your calendar look this summer? If it needs some spicing up you might consider adding the following wacky days to fill in the blank spots. You don't have to actually observe the day to enjoy it, just knowing the silly day exists may cheer you up.

June

- 1st Go Barefoot Day
- 7th VCR Day
- 16th Fudge Day
- 23rd Public Service Day
- 24th Fairy Day

July

- 2nd I Forgot Day
- 5th Bikini Day
- 7th Chocolate Day
- 21st Hot Dog Day
- 27th Walk on Stilts Day

August

- 3rd Watermelon Day
- 8th Happiness Happens Day
- 12th Vinyl Record Day
- 17th Thrift Shop Day
- 25th Kiss and Make Up Day

I have no idea if anyone actually celebrates these days but our friends at daysoftheyear.com claim these and dozens of others are legit.

Announcing:

Emma Pearl Nicholls

Josh Nicholls is a Dad, Randy Nicholls is a Grandpa and Emma Pearl Nicholls is adorable!

Congratulations to Josh and especially his lovely wife Kristine for bringing a beautiful new baby into the world. May she bring sunshine to your family forever.



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LET'S TALK ABOUT...

THE *United State* OF AMERICA

The Political Process

Another election year is here and the excitement and shouting of political parties is likely to get louder. As you may have gathered, it is a goal of mine to avoid politics in business, but perhaps in this article I can provide perspective on this process without becoming overly political.

As Americans I hope we can all agree this is a great nation. It is singular in its freedoms, opportunity and stature. Our founding documents, the Declaration of Independence, the Constitution and the Bill of Rights are unmatched in their vision for a benevolent government. America stands as a beacon of possibility and people from all over the world long to live here. I am grateful for what our nation represents and what we have accomplished.

Strength in Unity

The seal of the United States includes the Latin phrase "e Pluribus Unum" which can be translated "from the many, one." I believe this phrase contains the secret of our nation's strength. We are a diverse lot, perhaps never as observable as during a presidential campaign. Diverse as we are, and passionate about our opinions, we remain unified behind our flag and constitution.

It is precisely this combination of unity and diversity that makes us the greatest nation on earth. While some may lament our dramatic differences of opinion, I believe we should embrace them.

What We Can Do

As we enter the most contentious part of this election season I expect candidates, their supporters and the media to generate more heat than light. How can we avoid getting caught up in the frenzy? Here are three ideas which may help you retain your sanity despite the political tumult.



First, don't drink the Kool-Aid. Some media may become enthusiastic in their coverage; on-air personalities may embellish or misrepresent facts. When they do I have learned to turn them off. In this way I can avoid overly enthusiastic excesses. The goal is to be informed so we can make good judgments. Vaudevillian political theater does not help us.

Second, discuss, don't demonize. In reality most Americans, even most politicians, are not Marxists, Nazis or Anarchists. If you have strong opinions (as I do) you probably know some people who don't agree with you -- that is diversity in action and it is a good thing. It is entirely possible for two good people to have opposing views on a given subject. Understanding comes from discussing ideas, not from attacking those who hold them.

Third, disagree without being disagreeable. A while back I had an enlightening conversation with a friend. We disagreed on how best to care for the poor. We each allowed the other had valid points, we each advocated our positions and in the end I had some points to ponder, perhaps my friend did too. In the heat of the election season it may seem we are choosing sides for the last great battle of good and evil but we are not hobbits and they are not orcs. We need to remember after the election is over we will still be fellow citizens in these United States.

It is good to be politically active and to vote. It is good to advocate for what we believe is best for our community and nation. It is good to be an American where these are rights given to all, regardless of their point of view. Let us be wise in this election season and embrace diversity and retain our unity. In this way we can enjoy the peace and potential of this great nation in which we have the privilege of being citizens.



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New Tools for New Times

The Truth Behind the

Four-Letter Word: *Risk*

We assess and take risks in our everyday lives and when investing. Conservative investors accept the risk their gains may not keep up with inflation. Aggressive investors accept the risk of their principal moving up and down in value. We accept these risks because we see some potential reward – peace of mind or an upside opportunity to offset the risk.

Carefully assessing upside and downside factors is essential to wise portfolio construction.

The Easter Egg approach to investing – picking up investments here and there as they strike our fancy – skips this step and relies on luck as much as skill for success. A better approach is to create a disciplined portfolio focused on specific goals. This implies both recognizing risk and managing it.



Types of Risk

Some investment risk is general, impacting virtually every asset in a portfolio. A significant political event or a broad economic downturn would be examples of this type of general risk. These factors are nearly impossible to predict accurately and are hard to avoid. Other risks are specific to certain industries, asset types or companies. These can often be identified and addressed both when a portfolio is created and over time as events transpire.

Specific Risk

For example, bond investors can assess and plan for default risk and interest rate risk. Default risk is the risk the bond issuer won't be able to pay your principal back at maturity. Interest rate risk is the risk a bond's value will change as a result of a change in the interest rate environment. We have strategies which address each of these.

Those who invest for growth in the U.S., overseas or globally, face different risks. Investing in foreign countries for example

carries risk unique to those

countries and the strength of their currencies. For example, say you invest in a Canadian company whose shares go up in price. If the Canadian Dollar depreciates relative to the U.S. Dollar your account could still go down in value.

Here in the U.S. you could be in big trouble if Mt. Rainier erupted and you were invested only in companies located in Seattle. Likewise if you were invested heavily in one company and their brilliant CEO suddenly

died, your investment might take a tumble. Each of these risks is identifiable and might be prudently addressed.

Addressing Risk

To address these risks we recommend a portfolio built on purposeful diversificationⁱ and careful selection of complimentary investments. The ultimate goal of any portfolio is to help you pursue your personal objectives and avoid if possible unpleasant surprises along the way.

ⁱ Diversification does not assure against loss.