COMPASS ADVISORS

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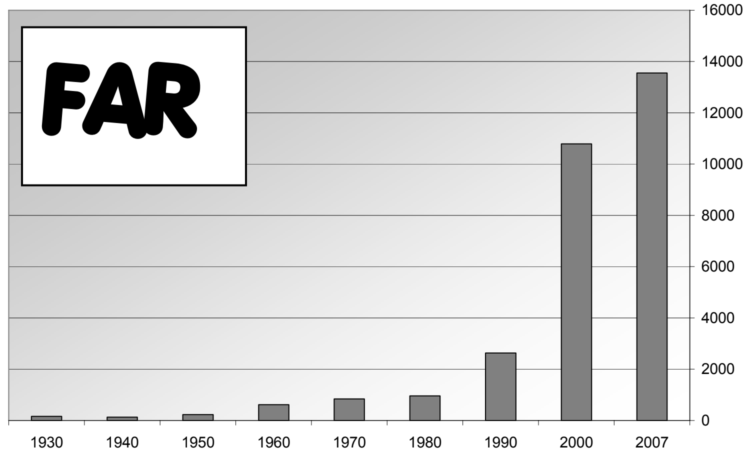
CHART ✦ NAVIGATE ✦ ARRIVE

Investment Directions

Summer 2007

Near…Far…



Sesame Street teaches my 5-year old daughter the concepts of near and far by having a character get right in front of the camera and say "NEAR" then move well away from the camera and seem to shout "FAR."

I would like to illustrate a similar concept using two charts of the Dow Jones Industrial Average[1]. The FAR chart[2] at right shows the value of this popular stock index by decade from 1930 to 2000 then updated to January 1, 2007. The historical trend is hard to miss.

For the NEAR graph[3] below I chose daily closing values over a recent one-year time period that ended about where they started. Any trend here is pretty tough to spot.

Time/Space Continuum

Both charts illustrate the same index but tell very different stories. The difference is in the data. One might think more data would be better but that is not necessarily true. The NEAR chart has lots of daily data points all clustered together and is not particularly insightful.

It is like the minute-by-minute reports of Wall Street you can find on many cable channels. They give you lots of data but it doesn't help you understand much.

Personally I have only so much space in my brain and I don't want to fill it with useless facts. My wife's birthday is not going to get replaced by speculation on GM's labor negotiations -- thrilling as that may be.

The FAR chart includes fewer data points but is spread over a longer time period. It is concise and easy to understand. I can remember the point and my anniversary too.

I don't know But I have an Opinion

I get asked a lot which direction investments are going. To be honest I really don't know in the short term. I am pretty sure some will go up tomorrow and some will go down. If you know exactly which ones will do what, we could make a killing.

Most folks don't want to hear that so I usually give them a longer-term opinion. Based on the FAR chart I suspect stocks may go up in the decades ahead. I may be wrong, they may buck the 70-year trend but that is my opinion.

One more opinion: I believe focusing on the longer-term is a good way to avoid the busy-ness of investing and concentrate on the business of investing.

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[1] 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. Past performance is no indication of future results.

[2] January 1 closing value of the Dow Jones Industrial Average for the years noted. Source: Media General Financial Services, MSN's Money Central.

[3] Daily closing value of the Dow Jones Industrial index, 7/1/2004-7/1/2005. Source: ibid.

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Wit and Wisdom -- Compass Quotes

"I must say I find television very educational. The minute somebody turns it on, I go to the library." *Groucho Marx*

"You're only given a little spark of madness. You mustn't lose it." *Robin Williams*

"People will pay more to be entertained than to be educated." *Johnny Carson*

"Art is making something out of nothing and selling it." *Frank Zappa*

"It's a recession when your neighbor loses his job; it's a depression when you lose yours." *Harry Truman*

"I went to a general store. They wouldn't let me buy anything specifically." *Steven Wright*

"The man who views the world at fifty the same as he did at twenty has wasted thirty years of his life." *Muhammad Ali*

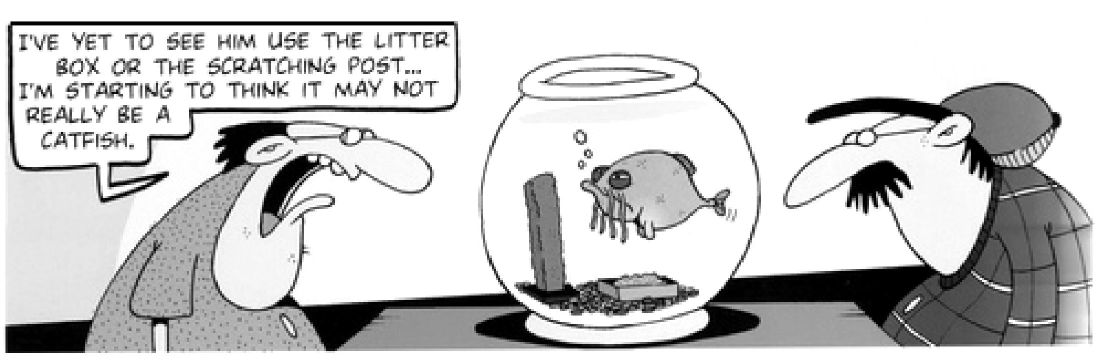
"Kids are great. That's one of the best things about our business, all the kids you get to meet. It's a shame they have to grow up to be regular people and come to the games and call you names." *Charles Barkley*

"Somebody's gotta win and somebody's gotta lose and I believe in letting the other guy lose." *Pete Rose*

"I have good news and bad news. The good news, you're not a hypochondriac . . . ."

Welcome to the Team!

Tammy Brown has recently joined our Compass Advisors crew. She is the mother of four, the wife of one and a long-time resident of Federal Way. When she calls you to set up an appointment, answers the phone when you call or takes care of something you need handled, we know you will be favorably impressed. We are grateful to have Tammy join the team; she has already made great contributions.



༄ The Reality of Retiring ༄

7 Issues

To Address and Get Right

Longevity

You will likely live a long time in retirement. For a couple age 65 today there is a 50% chance one of the two individuals will live to age 92. There is a 25% chance one will live to age 97.[1] Planning to live for thirty years in retirement is not wildly optimistic, it is wise. You cannot afford to pattern your retirement after your parent's generation. Your longevity will bring opportunities and pitfalls your parents did not dream of. Plan to live a long time, plan to enjoy every minute of it.

Cost of Living

Inflation is real, we have seen it recently at the gas pump but it is clear at the grocery store and the doctor's office too. The solution is growth of assets and income to keep pace. While a fixed income has advantages in retirement, you may also want to include opportunity for growth in your plans.

Personal Responsibility

Twenty years ago nearly half of Americans were covered by a corporate pension plan. Today the figure is below 20% and falling.[2] In the years ahead corporate pensions and social security will probably provide less and less retirement income. 401k plans and personal savings will make up the difference which means responsibility for your retirement is yours. You will need good help as you chart your course, navigate obstacles and arrive at your destination.

[1] U.S. Annuity 200 mortality table, Society of Actuaries.

[2] Standard and Poor's, December 2005; Employee Benefit Research Institute, March 1998.

Beginning Well

You may get to choose when to retire but you do not get to choose how the investment world will perform in the first few years. Surviving the critical first decade is part good fortune and part good planning. Drawing conservatively from your retirement nest egg is one way to avoid problems. Those who are unrealistic, expecting too much and drawing too much are often disappointed.

What if…

Despite prudent planning and conservative assumptions, you may still experience an untimely downturn in investment markets. What will you do? In a recent poll of pre-retirees, 51% said they would work longer. 31% said they would reduce their lifestyle and 18% said they would rely on the stock market to catch up.[3] Expecting the unexpected is not only a good idea in nature, it is a good idea in retirement too.

[3] Prudential Global Market Research, June 2006

Legacy Priorities

Every day we make decisions and our planning or lack of planning will leave a lasting impact. Will you leave money, memories, moral anchors or a mess? This requires more than simple financial planning or the drafting of legal documents. Do you want to write your 10 keys to a happy life and distribute it to your loved ones? Do you want to pay for a family reunion so you can tell stories of hope and strength from the lives of your ancestors to the younger generation? Will you leave a tangle of emotions and assets for your loved ones to sort out? You will leave a legacy, you should decide what you want it to be and make it so.

The Simple Life

Simplicity can bring peace but requires letting some things go. It may be symbolic that hearses do not have trailer hitches. Life is simpler when we can focus on what is most important and not fuss over the rest. I recall with fondness a client some years ago who struggled with complicated, controlling plans for his sizeable estate. He could never get it right. In the end he sat down with one trusted heir and said in essence: "I am giving you all of my assets, here is what I want you to do with them." With that he was satisfied and passed peacefully. We can enjoy a simple life and simple pleasures.

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Strategies You Can Use

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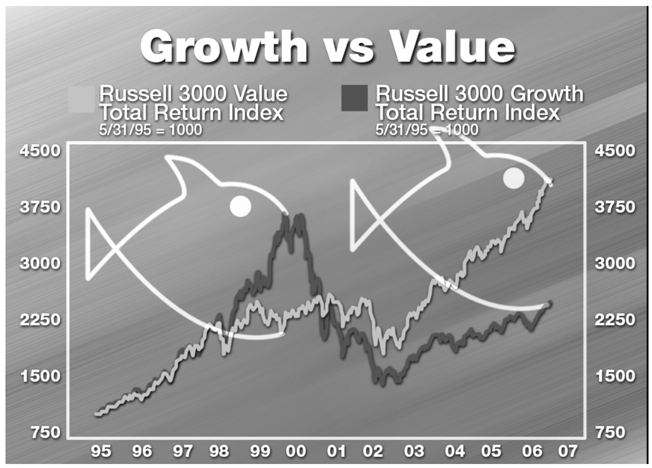
Watching Asset Classes

Within stocks, bonds and cash are sub groups called *Asset Classes*. This is important because just as stocks often act different than bonds, asset classes often act different one from another. Proper diversification requires we are not only aware of those asset classes but that we watch them closely.

While we do not advocate trying to time the market based on hourly or daily fluctuations, we do try to take advantage of longer-term trends. One case in point is illustrated by the graphic at right[1] which we call the shark attack.



Growth and Value

One way we divide companies is by separating them into *Growth* -type companies and *Value*- type companies.

Google would be a good example of a growth company. Growth companies typically make lots of money but don't own lots of assets. In financial terms their share price is usually high relative to their earnings and net worth.

Chevron would be a good example of a value company. Value companies typically have significant assets and will often pay a more generous dividend. They also usually have more assets and earnings per dollar of share price.

Which is better? That is a hot topic on Wall Street and advocates for each can be as fanatical as the most extreme sports fan.

The Shark Attack

Two asset classes are represented in this graphic by indexes[2]: one growth the other value. The divergence of the lines is what we call a shark attack.

Now a caveat: you cannot invest in an index so the purpose here is to make a general point, not to tell you what to buy or sell today.

The shark on the left has his jaws wide open in the year 2000. At that time growth companies were priced higher than value companies. In the correction that followed in 2001, the jaws clamped shut.

The shark on the right has its jaws gaping open in 2007 but this time value companies are outperforming growth companies. We cannot be sure when or if the jaws will clamp shut but the divergence between value and growth is clear.

Here is the point: You have a life. Unless following Wall Street is your passionate hobby, you probably will not recognize this sort of thing as it is happening. We, on the other hand, are investment professionals. We do this for a living and can watch your investments while you are out doing what you really like to do. We hope you will allow us to help you.

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[1] Source: Haver Analytics. Past Performance is no guarantee of future of results. The market for all securities is subject to fluctuation such that upon sale an investor may lose principal.

[2] The Russell 3000 is composed of the 3000 largest companies in the U.S. as measured by market capitalization. Indexes are unmanaged; you cannot invest directly in an index.