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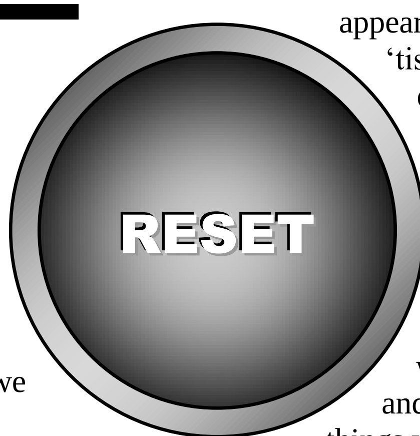
Investment Directions

Summer 2009

What Do We Need to Be Happy?



The past year has served as a kind of reset button for many individuals and families. After a surge in consumerism, buying whatever we want whenever we want, many people are reconsidering their priorities.

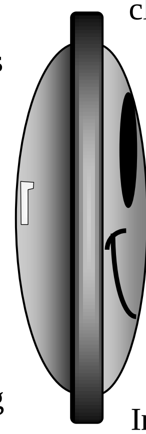
Perhaps this is what the end of excess looks like. In America's age of overflowing affluence, many Americans felt alone. Relationships were strained, families frayed at the edges and divorce rates grew. Clearly money didn't buy happiness.

The Simple Life

Fortunately, this recession seems to be changing us. Some are rediscovering simple pleasures: long walks, fireside chats, spending time together rather than money. Could it be that America is learning to be more satisfied?

That would be a silver lining in this particularly dark cloud – living on less and being happier too. Alan Durning in his book _How Much Is Enough?_ wrote that in the 1990's people were "on average four-and-a-half times richer than their great-grandparents were at the turn of the century, but they (were) not four-and-a-half times happier."

Simpler can be better. Benjamin Franklin in the book _The Way to Wealth_ wrote: "When you have bought one fine thing you must buy ten more that your appearance may be all of a piece; 'tis easier to suppress the first desire than to satisfy all that follow it."



Your Money or Your Life

It is certainly true that we trade our lives, our hours and days and years for the things we buy.

We work to pay for a thing, then we clean, insure, hide, polish and protect it. Our mortgage often determines our retirement date; our financial obligations may set the hours of our work week. If we didn't have to do that, what could we do instead?

The Great Reset

This philosophical question carries an economic impact as well. Individuals who choose simplicity carry less debt, save and invest more, and spend less. If enough individuals were to change, our economy may also be changed.

I would love to see America reset in this way; I believe we would be happier. But alas I do not expect it.

We, however, can choose our own path. We can be happy come what may. We can choose to enjoy better lives whether or not we make a better living. We can resolve to pursue joy over wealth. We can reset our perspective and change our world.

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I am a poetry lover. Here are a few of my favorites.

The Road Not Taken
By Robert Frost

Two roads diverged in a yellow wood,
And sorry I could not travel both
And be one traveler, long I stood
And looked down one as far as I could
To where it bent in the undergrowth;

Then took the other, as just as fair,
And having perhaps the better claim,
Because it was grassy and wanted wear;
Though as for that the passing there,
Had worn them really about the same

And both that morning equally lay
In leaves no step had trodden black.
Oh, I kept the first for another day!
Yet knowing how way leads on to way,
I doubted if I should ever come back.

I shall be telling this with a sigh
Somewhere ages and ages hence:
Two roads diverged in a wood, and I,
I took the one less traveled by,
And that has made all the difference.

The Sea Gull
By Ogden Nash

Hark to the whimper of the sea-gull;
He weeps because he's not an ea-gull.
Suppose you were, you silly sea-gull.
Could you explain it to your she-gull?

The Turtle
By Ogden Nash

The turtle lives 'twixt plated decks
Which practically conceal its sex.
I think it clever of the turtle
In such a fix to be so fertile.

The Abominable Snowman
By Ogden Nash

I've never seen an abominable snowman,
I'm hoping not to see one,
I'm also hoping, if I do,
That it will be a wee one.

MARKET TIMING:

WHAT IT IS AND HOW TO DO IT

What it is

Timing the market means selling before prices drop, then buying back in before they rise.

Great market timers miss the worst days in the market each year and take advantage of the most positive days. By missing the down days total performance skyrockets. Since volatility is a two edged sword, prices moving both up and down quickly, participating in just the up markets is a winning strategy.

How to Time the Market

There are three ways to effectively time the market, two of which are legal.

-1-

First the illegal one: Timing the market is simple if you have insider information. If you knew, for example, that Washington Mutual Bank was experiencing unprecedented loan losses before they announced the fact to the public, you could have sold shares before they were taken over by regulators and shareholders lost everything.

Unfortunately, as I mentioned before, trading on insider information is against the law and as I may not have mentioned, penalties are quite severe. I do not recommend this method.

Top Five Consistently Outstanding Market Timers in the World As of June 2009

1.

2.

3.

4.

5.

-2-

The second method is to predict the future. We talk euphemistically about crystal balls (those who have been to my office know I keep one on my desk although confidentially I will admit I have yet to make it work) but how you predict the future is of little consequence. The important point is actual knowledge of events that have not yet transpired.

Once this knowledge is attained the matter of profiting from it is quite elementary. It is precisely because knowledge of the future is so rare that this method works so well.

-3-

The third and final method used to time the market is dumb luck. In practical application most market timers have relied on this method more than any other.

By correctly calling a market move, either up or down, prior to the actual move taking place one may *claim* expertise in market timing. In the absence of a second major move (which would be statistically more difficult to predict than the first one) one may claim to be an effective market timer for some years.

Conclusion

John Bogle, founder of the Vanguard Group, one of the world's largest mutual fund houses wrote the following regarding market timing as an investment strategy:

"After nearly fifty years in the business, I do not know of anybody who has done it successfully and consistently. I do not even know anybody who knows anybody who has done it successfully and consistently."

At Compass Advisors we do not attempt to time the market. We rely on time-tested investment strategies and discipline, not on insider information, soothsaying or luck. Our process is repeatable and allows us to Chart, Navigate and Arrive.

Whether you choose to be conservative or aggressive, it is time in the market rather than timing the market that is key.

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Strategies You Can Use

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Three Ideas

If you are one of those people who is holding cash on the sidelines and wondering if it is time to get back into the market, here are three investment ideas to consider. Mind you these are just thumbnail explanations, you will want to know more before you actually invest money. Please call me if you are interested and I would be happy to provide more information.

#1 Variable-Rate Treasury Bonds or TIPS

The acronym comes from a long discarded name – Treasury Inflation Protected Securities – call them what you will the attraction is their variable interest rate. Most government bonds pay a fixed interest rate for the term of the bond. TIPS, in contrast pay interest which is tied to the Consumer Price Index which measures inflation.

When inflation rises and falls, the rate of interest paid by TIPS bonds also rises and falls. This is not good if you expect inflation to stay low, but if you believe inflation may rise in the months and years ahead, owning a bond whose interest could also rise is quite attractive.

I believe TIPS are worth considering now because I believe inflation may heat up as this recession turns around. If you are looking for an income-type investment and do not want to get locked into current interest rates, you might consider TIPS.

#2 Long-Short Strategy

In Wall Street jargon, owning a stock is called being "long" in that stock. When a person believes a certain stock may go down in value they might "short" the stock. This means borrowing the stock then selling it with the intention of buying the shares back later at a lower price to pay back the loaned shares.

Both buying stock a person expects to rise and selling stock a person expects to fall are viable investment strategies. There is potential to make money whether the market goes up or down.

With that potential comes a downside. Both strategies can be rather volatile as stock prices fluctuate. In response to this dilemma some smart Wall-Street type came up with the idea of investing both long and short at the same time.

The "long-short" strategy attempts to take advantage of normal market volatility whether prices rise or fall. The specific strategy I think is worth a look today is the "market neutral" approach.

This strategy may be more stable than investing either long or short alone. In the longer term it may provide an opportunity for modest growth with modest volatility.

#3 Inflation Sensitive Equities

Over the last six months government spending has increased markedly while tax revenue has fallen. This is called deficit spending and is not new. What is new is the relative size of the deficit.

I am among those who believe this will cause an increase in inflation at some point. Certain investments generally do well in an inflationary environment so my third idea is to invest in inflation sensitive equities.

It should come as no surprise that oil companies own oil, timber companies own timber and gold mining companies own gold. If the underlying commodity goes up in price, the value of the company may rise also.

In addition to individual companies, one might consider index or other mutual funds which may own many companies in a specific industry. These funds may provide a simple way to get broad exposure to target companies or they may invest directly in the commodity itself. For more information or specific recommendations, please call.