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Produced by
Randal L. Nicholls
& Kristal L. Miller

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

Investment Directions

Spring 2006

"Mea Culpa"

An acknowledgment of a personal error or fault.

One year ago in this space I addressed rising oil prices and said in part:

"The price of a barrel of oil depends on the fundamentals of supply and demand, then on a hefty dose of speculation…and all three favor lower oil prices."

In the year since, the price of a barrel of oil has risen by more than 20% recently trading at over $70. This deserves a mea culpa and an update.

Clearly I got the direction of oil prices wrong. Mark Twain once said "Climate is what we expect, weather is what we get."

Having gotten $70 per barrel oil and higher gasoline, natural gas and heating oil prices, we need to re-assess where we may be going from here.

Supply, Demand and Speculation

Global demand for oil remains very strong. Supply of oil and gas was disrupted last fall by hurricane Katrina and Iran's nuclear effort may yet disrupt supplies in the days ahead. Speculators see rising interest rates, conflicts in the Middle East, and a strong global economy and are adding commodities to their portfolios.

To sum up, when we look at supply, demand and speculation, we are hard pressed to find good reason to expect much lower oil prices in the near term. By the barrel or by the gallon, we may have to deal with these higher prices for some time to come.

Navigating this News

Now for the $64 question (for those of you who can remember such things): What does this mean for stocks, bonds and other investments?

<u>Stocks</u>

The big story here is that with oil, gold and interest rates all pushing upward, major market stock indexes are not dropping significantly. The Dow Jones Industrial Average[1] has been hovering above 11,000 recently; the all-time high which was reached in January of 2000 is 11,723.

Companies with solid assets, especially hard assets, should do well. Persistent earnings in the face of rising interest rates is also a good indicator of future success.

<u>Bonds</u>

In mid-April the yield on the 10-year Treasury bond surpassed 5% for the first time in four years pushing the value of many existing bonds lower. For those who plan to hold their bonds to maturity these gyrations are don't matter much.

If interest rates continue to raise you may see your total return pinched a bit but your income should continue unaffected. Treasury Inflation Protected Securities or TIPS, adjustable rate and shorter term bonds may perform best in this environment.

Life provides many opportunities to adjust our course and trim our sails. This is all part of the Navigate phase of "Chart, Navigate, Arrive." This is an opportunity to re-align our ship with our intended destination and sail ahead.

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[1] DJIA is an unmanaged index of 30 blue chip U.S. stocks. It is not possible to invest in an index

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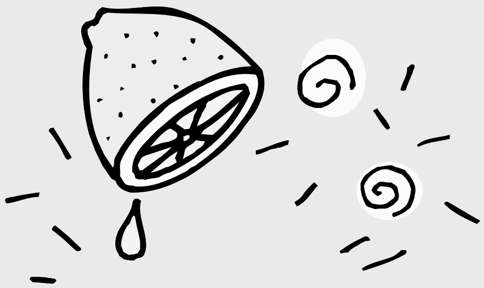

Give a Squeeze

The local bar was so sure that its bartender was the strongest man around that they offered a standing $1000 bet. The bartender would squeeze a lemon until all the juice ran into a glass, and hand the lemon to a patron. Anyone who could squeeze one more drop of juice out would win the money.

Many people had tried over time (weightlifters, longshoremen, etc.) but nobody could do it. One day this scrawny little man came into the bar, wearing thick glasses and a polyester suit, and said in a tiny squeaky voice "I'd like to try the bet." After the laughter had died down, the bartender said OK, grabbed a lemon, and squeezed away. Then he handed the wrinkled remains of the rind to the little man.

But the crowd's laughter turned to total silence as the man clenched his fist around the lemon and six drops fell into the glass. As the crowd cheered, the bartender paid the $1000, and asked the little man, "What do you do for a living? Are you a lumberjack, a weightlifter, what?"

The man replied, "I'm an IRS Agent."

Tax Facts

The number of tax returns with zero or negative tax liability has risen from about 18 percent in 1983 to 32 percent this year.[1]

In 2003, 2,448,288 Americans died and 30,276 of those estates were taxable when their returns were filed in 2004 — that's 1.24 percent. Those returns had to involve more than $1 million in assets to be taxed.[2]

Millionaires and billionaires don't pay proportionally much more federal income tax. The top 1 percent will pay 29.3% of their income, and the top one-thousandth 31.4%.[3]

Since 1960 the top federal income tax rate has fallen from 91% to 35%.[4]

Tax Freedom Day will fall on April 26 in 2006, according to the Tax Foundation's annual calculation using the latest government data on income and taxes.

The top 25 percent of income earners pay nearly 83 percent of the income tax burden.[5]

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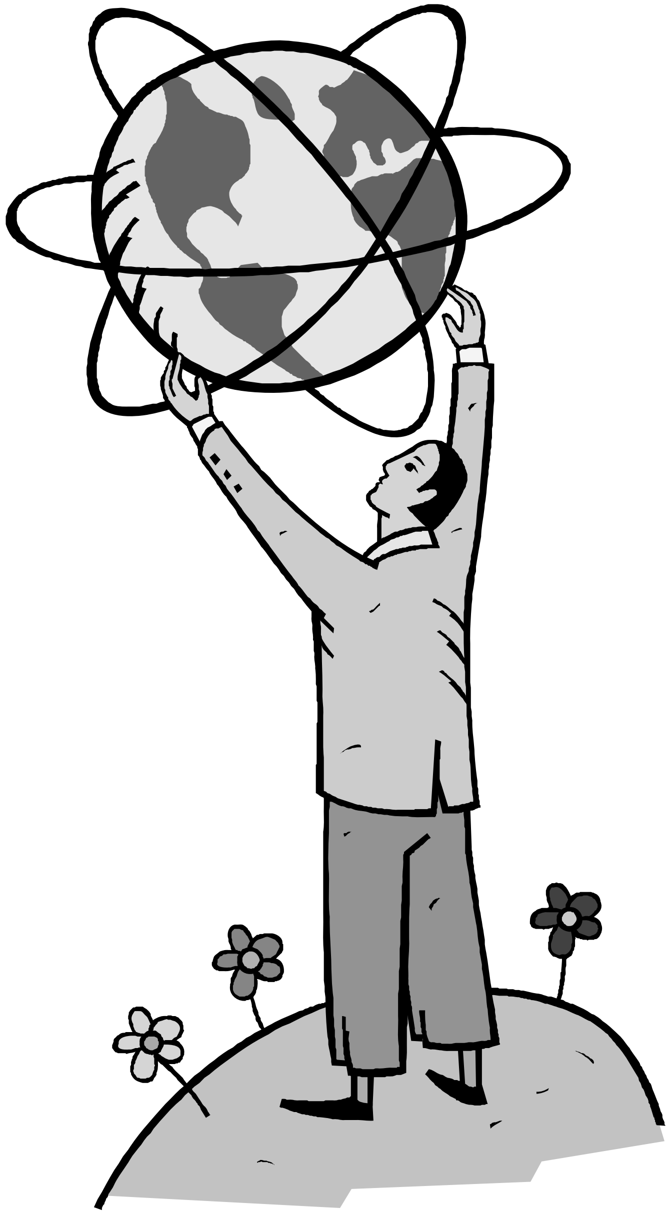
[1] *CBS News: www.cbsnews.com*
[2] *Ibid*
[3] *David R. Francis,The Christian Science Monitor.*
[4] *Joint Committee on taxation publication #JCX-6-01*
[5] *Source: Brian M. Riedl, Heritage Foundation, 2/14/ 2006*

Expanding Your Portfolio Horizon – Taking a World-Wide View

Many of the world's best companies — and investment opportunities — are located outside the United States.

Let me say up front that the U.S. stock market is the most mature and reliable market in the world. Like traveling overseas, investing overseas requires some preparation to avoid surprises.

Investing outside the United States involves special risks, such as currency fluctuations and political instability. That's why I advise my clients to select an experienced investment manager.



The Value of a Financial Sherpa

Professional money managers can help you navigate the unique characteristics of foreign markets. For example, markets and companies in developed countries often act quite differently than those in developing countries. A professional manager can help you not only in Brazil, Korea or Mexico but also in Great Britain.

Developing economies, sometimes called "Emerging Markets" by the marketing folk, can be illiquid and volatile. A good manager can help you avoid missteps. Even in the more mature economies in Europe or Japan a seasoned manager can be invaluable.

Potential Benefits in Your Portfolio

Despite the issues mentioned above, you may be surprised to know one advantage to investing outside of the U.S. may be reduced volatility.

Stock markets around the world haven't historically moved in unison. In 12 of the past 25 years, non-U.S. stocks have provided better returns than their U.S. counterparts (as measured by the unmanaged MSCI EAFE® Index and Standard & Poor's 500 Composite Index, respectively).

Over the past 25 years, the least volatile stock portfolio, as measured by standard deviation, would have included 60% U.S. and 40% non-U.S. stocks.

A Changing World

Not every great company is wrapped in red, white and blue. While it is true that U.S. companies are increasingly global, it could be a mistake to assume that you need not diversify because of that fact.

Limiting your investments to U.S. stocks could mean you are missing out on more than three-quarters of the world's investment opportunities.

Over the past few decades, political and economic changes around the world have opened borders to free trade and free enterprise and have spurred technological innovations. As the global marketplace has grown, so have investment opportunities around the world.

If you think going global might help your portfolio, we should talk in more detail. You deserve a strategy tailored to your needs. I am here to help you consider all your options.

Investment in foreign securities involve risks relating to political and economic developments abroad, foreign taxation, currency exchange rate fluctuations, as well as differences in accounting standards.

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Strategies You Can Use

Dynamic Asset Management

We at Compass Advisors use a disciplined system to create effective investment portfolios. Each portfolio is tailored to our client's needs and modified over time.

We call this process dynamic asset management. We make adjustments on four different levels as markets and personal circumstances change.

Level One: Asset Mix

This is the most basic of asset allocation decisions, choosing a balance of stocks, bonds, cash and other investments. This mix is chosen based on your goals, your feelings about volatility and your need for growth, income or both.

Level Two: Asset Class Selection

Within each asset type are many sub-classifications which act differently. Foreign versus domestic companies for example, or large versus small companies. The amount allotted to each is made using a Nobel Prize-winning strategy designed to combine complementary investments.

Level Three: Investment Selection

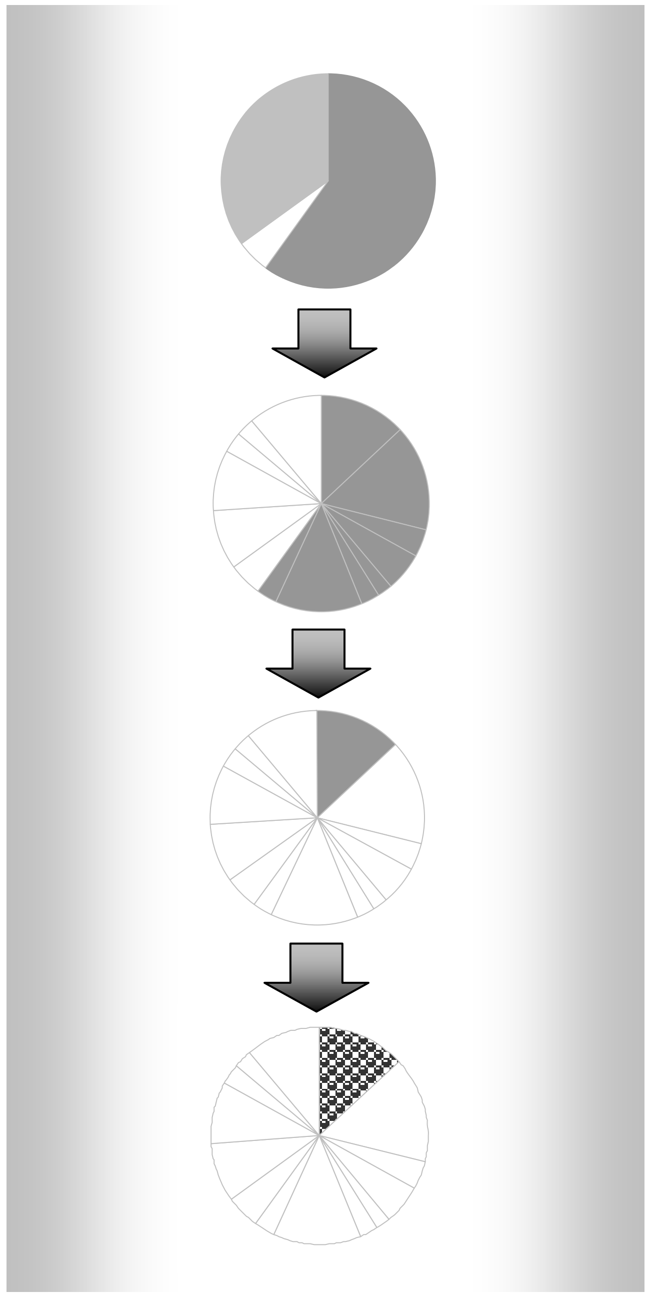
In each asset class we review the many available investment options and select those we believe to be the best. Being the best requires competitive performance, consistent execution and reasonable cost. Investments may be managed mutual funds, exchange-traded index funds or individual securities.

Level Four: Security Selection

For managed accounts the portfolio managers will select individual securities. This requires in-depth research and careful attention each trading day. We monitor each manager's performance relative to their peers and make changes as needed.

The end result of this dynamic process is a portfolio tailored to you and constantly adjusted to fit your circumstances and the current investment environment.

We believe this is the most advanced approach to investing in the world today. If you have investments which are not meeting your expectations, perhaps we can help you by applying this proven approach.



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