COMPASS ADVISORS

Investment Directions

SPRING 2015

CHART ✦ NAVIGATE ✦ ARRIVE

Happy Birthday!

Earlier this year the bull market on Wall Street hit its 6th birthday which is a wonderful milestone and pretty rare. This is only the third to reach that age since World War II. This can prompt some questions. For example: Why has this bull market lasted so long? Is the end near and should I be worried?

Behind the Banner Headlines

The simple answer to the first question is the rebound has lasted longer because it was slower. You may have noticed the deep hole and our slow, uneven climb out of it. If you are interested in pursuing contributing factors such as market forces and government influence, call me and we can discuss it.

Perhaps the more interesting question is the second one: Is the end near and should I be worried? My answer: Yes, probably and No, probably not. We have never seen a bull market go up forever so I predict (I feel safe on this one) this bull market will at some point end. Ups and downs are common on Wall Street and I see no reason for that to stop. The good news is a bull market does not need to end in a disastrous cliff, in fact recent research from LPL Financial, our broker/dealer, suggests a low probability of recession in the near term. Here again if you would like more detail on the basis for that prediction including implications of Leading Economic Indicators, call me and I will send you the report.

A Slow Start… and Probably Finish

What we do expect to see is a slowing down. The first quarter of 2015 was slow on most fronts, the S&P 500[1] was up just 1%. Some sectors did better, notably healthcare and smaller companies and some sectors did significantly worse like energy and utilities.

Analysts looking back with 20/20 hindsight would point to bad weather, a painful port strike and the strong dollar as contributing factors. 2015 is starting off slow and may continue slower than average to the end.

Therefore, What?

Against this backdrop of a slowing market, what should you do? First, don't panic. We do not expect to see the Kraken of the deep arise to devour our ship, we expect the cycle of nature to continue with rain and sun, wind and waves in their turn.

I recommend you Chart, Navigate and Arrive. Charting your course, discussed in more detail on page four, includes selecting a strategy tailored to your preferences and goals. Navigate implies making course adjustments as appropriate. For example we have been lightening our exposure to foreign investments of late but are beginning to see signs that Europe may be turning a corner. Timely course adjustments are an important component of a solid strategy. The Arrive step is the natural result of Charting and Navigating wisely.

So, let's celebrate the 6th birthday of this bull market and enjoy the day. The famous phrase "Sufficient unto the day is the evil thereof" comes to mind, encouraging us to live today and each day to the fullest. That said, I am also in favor of planting cherry trees.

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[1] *S&P 500 is an unmanaged index of 500 large domestic stocks which does not accommodate direct investment. Performance source: Yardeni Research, Inc; Chart source: S&P 500 index as reported by MSN money. Past performance does not guarantee future performance.*

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Daffynitions

Source: JimWegryn.com

abdication — Giving up on stomach exercises.

atheist — A believer in non-belief.

bankers — The rooters of all evil.

committee — A body that keeps minutes and wastes hours.

download — A crucial step in making a pillow.

flashlight — A case for holding dead batteries.

hangover — The wrath of grapes.

hunch — A gut feeling you get during lunch.

lymph — To walk with a lisp.

optimist — A person who smells smoke and gets out marshmallows.

pessimist — Someone who looks both ways before crossing a one-way street.

relentless — Not allowing someone to borrow something a second time.

Names Worth Remembering

Source: EthanWiner.com

Adam Baum
Al K. Seltzer
Anna Conda
Barb Dwyer
Beau Tye
Carrie Oakey
Chris P. Bacon
Constance Noring
Dan D. Lyons
Douglas Furr
Earl Lee Riser
Ella Vader
Gene Poole
Howie Doohan
Justin Case
Lily Pond
Lois Price
Marty Graw
Mike Raffone
Norma Leigh Lucid
Pearl E. Gates
Phil Rupp
Polly Ester
Ray Gunn
Reid Enright

How Investing Is Not Like A Box Of Chocolates

Forest Gump's mother famously said "Life is like a box of chocolates, you never know what you're gonna get." Investing can sometimes seem like that too -- but it doesn't have to.

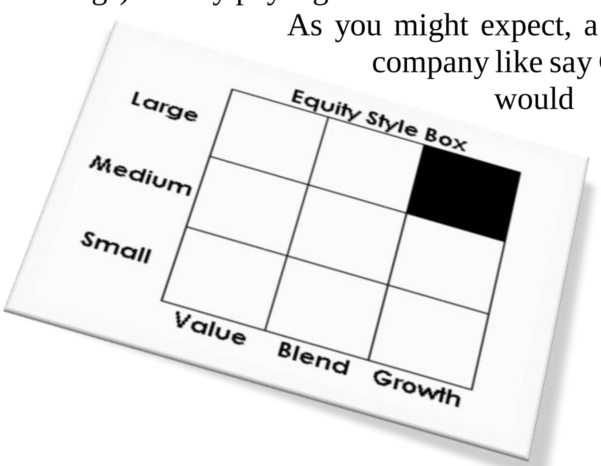
Sometimes you open a box of chocolates and find an insert with a description of each chocolate and where to find it in the box. I love that. The insert helps you know "what you're gonna get." That insert is like a style box chart for investors. Both can help you avoid surprises.

By understanding the style boxes and where different investments fit inside them, you can have a better idea what to expect. If you have ever reached for a malt ball and found yourself biting into a chocolate-covered cherry you know how valuable that can be.

Stock Styles

A style box for stocks will separate investments by size (small to large) then by style (growth to value). ***Growth*** companies are those expected to experience faster than average growth. Typically these companies will retain their profits to fund that growth rather than pay them out in dividends to investors. ***Value*** companies are those perceived as undervalued or having more intrinsic value than the share price indicates. Value companies may be more mature, may have significant assets (like timber, oil or real estate holdings) or may pay a generous dividend.

As you might expect, a growth company like say Google, would be expected to perform differently from a value company like say Weyerhaeuser. Each is a fine company but different. Not all companies are easily categorized as either growth or value so a middle category appears on a style box chart labeled "blend".

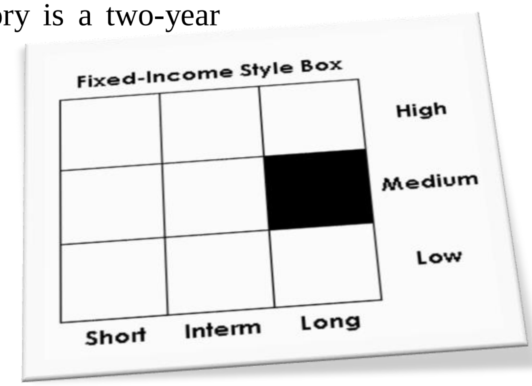


The value-blend-growth continuum is represented by three boxes from left to right; the large-medium-small continuum is represented by three boxes top to bottom. All together you end up with a nine-box grid. Not all stocks or funds fit easily in just one box but for most, the category can be helpful.

Bond Styles

There are style boxes for bonds too but the categories are different. Bonds are shown on a nine-box grid with time to maturity (short, medium, long) on one axis and quality (high, medium, low) on the other.

The theory is a two-year treasury bond (short-term, high quality) would be expected to perform differently from a thirty-year bond issued by a struggling bank (longer-term, lower quality). In the end the purpose of the style box chart for bonds is the same as for stocks: additional knowledge leads to fewer surprises.



Style boxes are not intended to show better from worse, simply to highlight differences. If you know what you are looking for, a style box chart can be a valuable tool to help you find it. By thus categorizing investments, you can understand your investments better and hopefully will be better able to avoid unpleasant surprises. When we at Compass Advisors create portfolios we use many tools, including style box charts. Used properly they can help to purposefully build a tailored portfolio.

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New Tools for New Times – Growth Strategies

How to Make a Portfolio in 4 Complicated Steps

Constructing a solid investment portfolio is not a simple task but understanding the process and underlying principles can be helpful.

Step One

Step one is what Stephen Covey (*Seven Habits of Highly Effective People*) called "Begin with the end in mind." Is the goal to provide income? Is it to grow just as fast as possible? Perhaps the goal is to stay ahead of inflation or minimize volatility. You can't build an effective investment portfolio without defining your objective first. This may sound simple but it is not. Centuries ago someone inscribed on the Temple of Apollo at Delphi: "Know Thyself." All these years later we are still trying.

Step Two

Step two is to decide on a mix of basic asset classes like stocks, bonds, hard assets and cash. This step may be the biggest factor in determining your ultimate performance. Over twenty years ago a study was published which concluded asset allocation was responsible for over 90% of what they called "return variance."[1] The impact of investment timing and picking specific securities were small by comparison.

Step Three

Step Three is to choose sectors within the asset classes you have chosen. For example, if your goal is to have half your portfolio in stocks, do you want big companies or small ones? How much should be invested in the U.S. and how much overseas? Sectors could also include exposure to companies in specific industries like technology, energy or health care.

Step Four

Step four is to select the investments you will use in each sector. One might choose to use individual stocks and bonds or mutual funds. Some investment vehicles are actively managed by a money manager, some are more passive or based on an index. As you might expect, each may perform differently and interact with the other securities in different ways. The complex part of this step is the process of finding investments that work well together.

This is what we call purposeful diversification.[2] It is significantly different than the "Easter-egg approach" of picking up interesting investments over time. The end result should be more like a nutritious Easter meal and less like a basket of shiny candy eggs. The goal is to use a well thought-out strategy to tailor your portfolio to your wants and needs. Be aware however, no strategy is infallible, none can assure success or guarantee against loss. Creating a portfolio is just the beginning. Life happens and adjustments will surely need to be made.

Source: Financial Analysts Journal, May/June 1991. Asset allocation impact 91.5%, security selection 4.6%, other 2.1%, Market timing 1.8%

[2] *Diversification does not assure against loss.*