

COMPASS WATCH

DAVID M. CARLSON

RONALD J. POOLE

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CHARLES M. KELLEY

DALE L. WALTZ

LEIGH E. NIEBUHR

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FOREIGN INVESTING WITH U. S. COMPANY STOCKS

Wall Street has been highly successful at creating, packaging and delivering a bewildering array of investment products. Having choices is great, but too many can lead to confusion, gridlock or worse. One such area of product proliferation is foreign stock investing. The basic rationale seems appealing, since some non-U.S. economies are growing at impressive rates. Moreover, a certain amount of foreign diversification seems sensible. However, the overwhelming array of choices is a significant problem. In the mutual fund world, for example, Morningstar, the highly-regarded mutual fund service, lists twelve(!) categories under the International Stock subheading: "Europe Stock, Latin American Stock, Emerging Markets, Pacific/Asia, Pacific Asia ex-Japan, Japan, Foreign Large Value, Foreign Large Blend, Foreign Large Growth, Foreign Small/Mid Value, Foreign Small/Mid Growth, World Stock" ([Morningstar](#), July 6, 2005). These twelve categories represent 1,904 different foreign stock mutual funds comprising \$678 billion in assets. How can investors, even financially sophisticated ones, make intelligent choices among such an overwhelming number of funds? On the other hand, investing directly in these companies poses other risks, such as questionable accounting and reporting standards in some cases, and the significant impact of foreign currency.

A sensible alternative, we believe, is to invest in well-established and financed U. S. companies (and foreign companies traded on the New York Stock Exchange) which have significant operations outside the U.S. This way, one can be well-diversified and still participate with companies which, in some cases, are uniquely qualified to develop foreign markets. (In addition, most of these companies subscribe to stringent accounting and reporting standards, which should be of some comfort to investors.)

Listed below are the twenty-five "core" companies we are now managing in client portfolios at Compass. It is interesting to note that more than half of the twenty-five companies have over 30% of their total sales outside the U.S. and three have over 50%. Particularly revealing is that our most "American" company - - what could be more American than hamburgers? - - has two-thirds of its sales outside our borders (McDonald's).

COMPASS "CORE" STOCKS:

% Foreign Sales (As % of Total 2004 Sales)*

McDonalds's	66%	Franklin Resources	31%
Sigma-Aldrich	60	Bemis	24
Johnson Controls	56	Wal-Mart Stores	19
Cisco Systems	49	Automatic Data Processing	17
Omnicom Group	46	Sherwin-Williams	10
Pfizer	44	First Data	0-10
Illinois Tool Works	44	Home Depot	0-10
Johnson & Johnson	41	Sysco	0-10
Computer Sciences	33	Cardinal Health	0-10
State Street	37	CVS	0-10
Medtronic	32	Kohl's	0-10
Microsoft	32	Bed, Bath & Beyond	0-10
Biomet	33		

*Source: 2004 Annual Reports and other sources.

NOTE: This list is for information purposes only. It is not a recommendation to buy/sell these securities.

Successful investing is seldom easy. But keeping investment disciplines sensible, clear and as simple as possible seems to tilt the odds in one's favor. Buying quality U.S. companies which are growing well overseas is just such a discipline.