
COMPASS WATCH

DAVID M. CARLSON CHARLES M. KELLEY LEIGH E. NIEBUHR RONALD J. POOLE MARK S. HALVERSON

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INVESTMENT MISTAKE #3: LACK OF DISCIPLINE (FROM TOO MANY CHOICES)

Americans love having choices: Having many is an important part of how we define freedom. We want choices in the clothing, homes and cars we buy. We also want them when we select doctors, friends, colleges, restaurants; even spouses. In investing, however, too many choices can (and does) lead to confusion, paralysis and poor results.

The number of investment choices now available is simply astounding. For example, the Investment Company Institute included no less than 8,131 mutual funds in a recent study ("Trends in Mutual Fund Investing, November 2006, www.ici.org). In an advertisement in Barron's (January 8, 2007), a single brokerage firm touted over 3,000 mutual funds in their "OneSource" program, declaring, "Choice is a good thing"; but wisely adding, "Especially with someone to help your choose." Yes, and who might that be? In addition to mutual funds, there are the many thousands of individual companies represented by the NASDAQ, New York and American Stock Exchanges, and the thousands more individual municipal, government and corporate bond issues outstanding. Then there are the options/futures/commodity offerings, hedge funds, insurance products, real estate investments and exchange traded funds (ETF's). This area - - ETFs - - is exploding. Introduced in the early 1990s, there are now 347, with plans to launch another 343 in the immediate future (Wall Street Journal, December 28, 2006, p. D5).

Wall Street has produced a marketing avalanche which has now buried most investors and the professionals who are attempting to help them sort it all out. The investment task now seems to be somewhat like trying to assemble a jetliner from a huge, ever-growing box of innumerable parts. A very few individuals can, perhaps, but most won't be successful. A growing number of brokers, insurance agents, bankers, advisors, and planners offer seemingly everything to everybody under an investment approach they refer to as "open architecture." Multi-colored pie-charts, lengthy lists and glossy menus of what seem to be endless investment opportunities fill their briefcases and adorn their tables. Yet, for all the commotion, not surprisingly, results seem to be disappointing overall. In 401(k) plans, for example, where there has been dramatic growth in the number of investment choices offered, returns have generally been poor (see Compass Watch, Volume 17, Number 1: Spring 2005, which discusses studies by Dalbar (Boston) and others). Compass portfolio mangers also frequently encounter distressed individuals with "grandma's attic portfolios" packed with things sold by "open architecture" advocates, which have not performed well and are essentially incoherent, from a portfolio management point of view.

Meanwhile, the wealthiest person in the world became that way from one stock holding (Bill Gates- Microsoft). His friend, Warren Buffett, the second wealthiest person in the world and one of the greatest investors of all time, claimed in a recent television special that he chose to live in Omaha, because if he lived in New York, sales people would be hounding him with hundreds of investment ideas before noon each day. Buffett went on to say he was doing his job if he came up with **2-3** good investment ideas **per year** (!), to add to what he calls his "permanent holdings." ("Warren Buffet: The Billionaire Next Door", CNBC, Monday, November 20, 2006).

Successful investing is neither chaotic, nor incoherent. It is long-term in orientation (the idea is not only making money, but keeping it). It is also understandable, transparent and simple, in some ways. Successful investing is, in a word, **disciplined**. This is our discipline at Compass: We hold 25 stocks in our client portfolios where stocks are appropriate and limit ourselves to high-quality intermediate-term bonds in portfolios which require bonds. We follow this discipline because it makes sense and has produced strong results with reasonable risk characteristics over many years. Oh yes, we're well aware of the thousands of alternatives listed above. But our objective is not to bedazzle or bewilder our clients. It is to help them arrive at **their** financial destination safely, on **their** timetable, in a sensible way and with peace of mind. It is, after all, **their** money, not ours.

Suite 400 Baker Building · 706 Second Avenue South · Minneapolis, MN 55402
(612) 338-4051