

# COMPASS WATCH

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## WHAT WE HAVE BEEN DOING

These are interesting, though challenging, times - - falling home prices, war in the Middle East, skyrocketing commodity prices, plummeting interest rates, a collapsing U.S. dollar, massive writedowns by some of our largest financial institutions, near record stock market volatility, on and on. What is an investor to do in the midst of all this turmoil? Unfortunately, many investors chase whatever seems to be working at present (commodities, for example) - - crowd behavior which usually leads to misery. Others simply freeze in fear and confusion, diverting their attention to more pleasant things. Prudent investors, however, as we strive to be at Compass, realize that crises are more normal than exceptional and that such times, though distressing, also create opportunities. Our country, after all, has had to deal with world wars, 9/11, the assassination of Presidents, the Great Depression and many other economic slowdowns and challenges over the years. Somehow, Americans have responded and have been rewarded in the financial markets for their adaptability and perseverance.

We have been doing a number of things at Compass during this current period of turbulence. We have redoubled our reading and analytical work to get a better grasp of what truly is going on (versus the shallow clichés reported endlessly on the TV news). We have been talking with our clients in person and by phone in order to listen to their views and concerns and to apprise them of how we see things. (This newsletter is another example of our communication effort). Of course, we have also been busy managing client portfolios. In balanced accounts, for example, quality bonds have been soaring in price while stocks have been down somewhat, so we have been adding to stocks (“buying low”) in order to restore the proper ratios prescribed in client Investment Policy Statements.

Here are some other things we have been doing:

**Bonds** - 1) Confusion and turbulence in the bond markets produced a time in the quarter when high quality tax-exempt municipal bonds actually yielded more than taxable U.S. Treasury bonds. We used this rare anomaly as an opportunity to add to our tax-exempt municipal holdings; 2) where suitable, we reduced our mortgage-related U.S. government agency bonds in the quarter and swapped them for high-quality corporate issues of the same maturity. This swap not only reduced our exposure to the mortgage market but permitted us to pick up significant yield while preserving the high credit quality we require; and 3) although we continuously review ratings of the bonds we hold at Compass, we also reexamined the basis for these ratings to be sure they still adhered to our strict guidelines.

**Stocks** - 1) Dramatic stock market volatility in the quarter has meant that some of our stocks have soared while others sagged a bit. We have used this as an opportunity to trim winners and add to our undervalued names; 2) market turbulence has also exposed potential purchase candidates, which we have added to our “watch list”. (We put them on this list while we carry out our analytical work to determine if they are indeed suitable for purchase); 3) we have also increased our efforts to identify globally dominant growth companies which are the most likely to endure and prosper long-term, whatever economic challenges there may be in the future.

As you can see, we have been very busy during this period of market and economic turmoil. (Perhaps you have noticed that Warren Buffett and other legendary investors have been busy as well, buying underpriced stocks and bonds for their portfolios as opportunities arise). Such periods may be emotionally unsettling, but they can also be very rewarding financially, if one remains objective and does the necessary homework. In other words, this is a great time to add money to your account or open a new account with us!

**\*\* For more information regarding Compass, visit and bookmark our website: [www.compasscap.com](http://www.compasscap.com) \*\***