COMPASS WATCH

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A quarterly newsletter of Compass Capital Management, Inc. *Volume 21, Number 1: Spring 2009*

BALANCED ACCOUNTS CAN BE BEAUTIFUL

The financial turmoil of the last year or so has been sobering to say the least. Nevertheless, it has also been a good environment to observe which investment disciplines have proven to be sound and which have been less so. One successful approach has been **balanced accounts** using high-quality stocks, bonds and cash - - a discipline we have been following for over twenty years at Compass. Some investment advisers use balanced funds for market-timing (tactical asset allocation) strategies in an attempt to shift aggressively to cash, bonds, or stocks before the sector moves up in value. This approach seldom works and on the rare occasions it does short-term, seems to have more to do with luck than an ability to predict the future on a consistent basis. Other balanced fund advisers select a year, usually an expected retirement "target" date, and reduce stocks in the portfolio as the year approaches. We also resist this system because it fails to take into account adequately significant changes in the financial markets and client circumstances along the way to the target date.

We prefer to manage balanced accounts on the basis of a written, long-term investment policy statement (IPS); a custom, investment road map developed in consultation with the client, which reflects their distinctive goals, risk tolerance and circumstances. This written statement becomes part of each quarterly report we send to them. As their circumstances change regarding their need for principal preservation, income and growth, so too does their IPS. Such flexibility becomes even more essential as clients approach or enter retirement, since estate planning requirements, health issues, loss of a spouse, relocation, etc., can make significant changes to the IPS essential. When completed, the IPS identifies recommended allocation ranges in the portfolio between stocks (for growth), bonds (for income and principal preservation) and cash (for liquidity) as well as many other matters. Balanced accounts are also able to benefit from changes in the financial markets, since bonds and stocks frequently move in opposite directions. In these cases, having quality bonds in the portfolio often lessens the downside of a stock-only portfolio. Interest income and bond maturities also generate cash which can be used to buy stocks when they are down in order to rebalance to the desired stock weighting stated in the IPS.

The table enclosed shows how our Compass balanced portfolios performed over the 1, 3, 5, 10 and 20-year periods ending December 31, 2008, using our actual stock and bond returns over those time periods. (In addition to the results themselves, please note the definitions and disclaimers found on the front and back of this report.) A number of observations can be made from these results. First, over the 1, 3, 5 and ten years ended 12/31/08, our balanced funds outperformed a stock-only portfolio during this time of serious stock market turbulence. In 2008, our balanced accounts were down somewhat in value, but far less than the stock market. Moreover, with the exception of the 70%-stock balanced fund return over the 3-year period, all other balanced fund returns over the 3, 5, 10, and 20-year periods ended 12/31/08, were ***positive***. Second, although lower ratios of stocks in the portfolio helped balanced fund returns in the ten years ended 12/31/08, higher ratios of stocks helped, but only slightly, over the 20-year period. Third, even over the 20-year time frame, balanced funds captured most of the stock-only return, but with much less volatility. Some would argue that this 20-year period has been highly unusual. But, what is usual? Good investment disciplines take into account both up and down market cycles, which we certainly have had over the past two decades. And, over this period, our balanced accounts have performed very well, as the table demonstrates.

There are many situations in which an all-stock or all-bond portfolio best addresses client needs and goals. We manage many of these accounts. Other situations, however, suggest that a balanced account is an appropriate fit for the client. As you have seen, balanced accounts can be beautiful - - for the right clients and for the right reasons.

***** For more information regarding our company, disciplines and results, please call, write, e-mail or visit our website: www.compasscap.com*****

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COMPASS BALANCED ACCOUNT RESULTS[1]

(As of December 31, 2008)

	Total Return As of 12/31/08				
		Annualized			
	1 YR	3 YRS	5 YRS	10 YRS	20 YRS
COMPASS BALANCED ACCOUNT RESULTS[2]					
70% Stocks / 30% Bonds	**-17.07**	**-0.91**	**1.21**	**2.12**	**8.45**
60% Stocks / 40% Bonds	**-13.11**	**0.31**	**1.82**	**2.68**	**8.32**
50% Stocks / 50% Bonds	**-9.16**	**1.54**	**2.43**	**3.23**	**8.18**
40% Stocks / 60% Bonds	**-5.20**	**2.76**	**3.04**	**3.78**	**8.04**
30% Stocks / 70% Bonds	**-1.24**	**3.98**	**3.65**	**4.34**	**7.91**
COMPASS INDIVIDUAL STOCK RESULTS	**-28.94%**	**-4.58%**	**-0.61%**	**0.46%**	**8.86%**
S&P 500 (Cap. Weighted)	-37.04	-8.41	-2.22	-1.41	8.40
Russell 1000 Growth (Cap. Weighted)	-38.43	-9.10	-3.42	-4.27	7.43
COMPASS INDIVIDUAL TAXABLE BOND RESULTS	**10.63%**	**7.65%**	**5.47%**	**6.00%**	**7.50%**
Lehman Bros. Inter. Govt./Credit Index	5.07	5.51	4.21	5.42	6.96

[1] Compass results are before management fee, but after transaction costs. Client returns will be reduced by the amount of the management fee. The indexes shown are before management fees and transactions costs. Balanced account clients have widely differing needs for liquidity (cash) in their portfolios - - from virtually no cash to a significant portion of their portfolios. Therefore, the balanced account results above do not include the influence of cash in the portfolios. Cash can help or hinder total return, depending on the time period.

[2] The balanced results shown consist of the stock and bond returns above, combined in the percentages indicated (from 30% to 70% stocks).

For additional disclosures, see the back of this sheet.

ADDITIONAL PERFORMANCE REPORTING DISCLOSURES

1. Management Fee Schedule:

Type of Account	Annual Rate		Portfolio Market Value
Balanced	1.00%	on first	$5,000,000
& Equity	.75%	on next	5,000,000
	.50%	on next	10,000,000
	Negotiated on balance		
Bond Only	½ of regular fee schedule		

Example:
Cumulative fee paid for each period assuming an initial investment of $1 million with reinvestment of dividends and income and a 5% annual return.

	1 Yr.	3 Yrs.	5 Yrs.	10 Yrs.
Balanced & Equity (1.00% annual fee)	$10,500	$32,761	$56,618	$125,373
Bond Only (.50% annual fee)	$5,250	$16,465	$28,707	$64,439

Management fees may be negotiable for clients having special portfolio requirements or circumstances.

Fee Schedule also exhibited in Part II of the SEC form ADV.

2. Each composite **as of 12/31/08** represents the following:

Composite	Number of Portfolios	Composite Assets	Percent of Total Segment	Latest Quarter Standard Deviation
Stock	114	$99,181,964	56%	1.09
Taxable Bond	69	67,682,868	80%	1.21
Balanced*	-	-	-	-
Tax-Free Municipal Bond	19	15,455,009	57%	.53

*Stock/bond segment results in balanced accounts are included in the single asset stock/bond results above. Since Compass follows a "fully invested" (no cash) style in both its bond and stock management discipline, cash is not a factor in these results. Balanced account results provided are calculated as follows: our stock segment return + our bond segment return = balanced fund total return. Individual balanced fund returns vary according to account goals and guidelines.

3. Results since 1/1/93 have been calculated on a portfolio size-weighted basis. Prior to 1/1/93, results were calculated on an equal-weighed basis. The inception date of the firm for performance reporting purposes is January 1, 1989.

4. Composite performance results include all "fully-discretionary" Compass portfolios. All results are time-weighted using "trade date" valuation. "Fully-discretionary" portfolios refer to stock/bond segments or portfolios over $250,000 in market value at least 80% invested according to the Compass style.

5. A list of all composites and results is available upon request.

6. Leverage has not been used in achieving these results.

7. Returns for both Compass and the indices shown include dividend (stock) and interest (bond) income, not reinvested.

8. Past results do not assure similar results in the future. Stocks and bonds fluctuate in value, so at any time, there is the possibility of loss (or gain).