

COMPASS WATCH

DAVID M. CARLSON

LEIGH E. NIEBUHR

RONALD J. POOLE

MARK S. HALVERSON

CHARLES M. KELLEY

JAY M. JACKLEY

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THE IMPORTANCE OF DISCIPLINE

Investment discipline means knowing what you are doing and why you are doing it. At the present time, discipline seems to be in short supply. With the economic turbulence of the last few years, many investors have become understandably confused. Wall Street, meanwhile, has been happy to capitalize on their bewilderment by dumping an avalanche of approaches and products on them. The assumption seems to be that by throwing everything against the wall, something may stick. Wall Street calls this “diversification”, but it appears more like “desperation”. Desperation is the opposite of discipline. For Wall Street salespeople, it is an easy sell - - if you fill the portfolio with index funds, ETFs, multi-manager wrap programs containing scores of securities as well as many other products - - you can always point to something that seems to be working (even if the overall portfolio is collapsing). However, in times like these, when so many companies, styles, even entire countries are in disarray, why invest in them?

At Compass, we prefer hunting with a rifle rather than a shotgun. Rather than investing in “everything”, we prefer to find those relatively few individual stocks, bonds and funds which appear to be in strong financial shape and which are more likely to be able to weather the current economic storm. Non-consensus, independent thinking like this is essential for successful investing. Standing apart from the crowd in a disciplined way is vital - - especially when the crowd may be headed over a financial cliff. The idea is to make money in the markets and keep it, versus riding a bubble temporarily, only to lose it when the bubble/investment fails.

Following a rigorous discipline not only is vital for avoiding major mistakes, it also accounts for much of the success of the world’s greatest investors. Warren Buffett, for example, has been very candid and specific about his rigorous investment discipline, which has made him one of the wealthiest individuals in the world.

To some, this emphasis on discipline may seem overly rigid. We don’t think so. “Rigid” investors right now may be the ones who are betting everything on a future scenario they presume to know in advance (they don’t). Many are putting everything they have into cash, gold, emerging market stocks, etc., based on their highly questionable speculations about the future.

At Compass, although we are highly disciplined, there is a great deal of flexibility within our disciplines. For example, the mix of stocks/ bonds / cash in our portfolios differs greatly from client to client, depending on their distinctive needs for growth, income and liquidity. Although our “core” individual stock discipline emphasizes high-quality, well-established, growth companies, sometimes we find these names in the mid-cap, large-cap or jumbo-cap segments of the market. We also supplement our core stocks with no-load small and foreign stock mutual funds when appropriate for the client.

In managing our fixed income portfolios, we are also quite flexible in some areas. Although our bond discipline focuses on intermediate-term, high-quality bonds, these holdings include municipals, corporates, U.S. Treasury and U.S. Agency bonds. We shop among these categories to find desirable offerings. We also sell holdings when things change - - as was the case when we sold our Fannie Mae, Freddie Mac and Federal Home Loan Bank bonds due to on-going problems in the mortgage market.

Finally, we follow our disciplines because they allow us to learn - - from our mistakes as well as our successes. Over time, we should get better. We’ve been doing this for nearly 22 years at Compass; and we have learned a great deal. So, we will continue to follow and learn from our disciplines - - not because we’re rigid, but because they work!

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

*Compass Capital Management, Inc. * Baker Building, Suite 400 * 706 Second Avenue South * Minneapolis, MN 55402 * (612) 338-4051*