

COMPASS WATCH

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IMPROVING INVESTMENT OUTCOMES: FIVE RESOLUTIONS FOR YOUR PORTFOLIO

It's a New Year. For many, this brings a renewed sense of reflection (and desire) to make resolutions for the future. Incorporate the following five Compass disciplined tips into your portfolio to improve your long-term investment outcomes.

TIP 1 | Own High-Quality Securities. True for any period, but especially during times of economic and market stresses. What is high-quality? We buy common stocks of diversified companies which are financially strong and likely to grow earnings, dividends (if any) and free-cash flow well into the future. We also buy bonds whose issuers are very likely to pay principal and interest when due. Successful investing requires an effort to tilt the odds in the investors' favor. Too many investors chase returns, ignore risk and investment style and suffer the unfortunate consequences. Paying attention to risk (and quality) does not diminish returns, but improves returns over the long-term.

TIP 2 | Reduce and Simplify. This is not a recycling tip or an effort to be "green." Unfortunately, we often see portfolios needlessly complex. Wall Street works overtime to sell the message that investing is complicated and messy. After all, the aim of Wall Street is to get investors to buy products (many untested, illiquid and expensive) and to keep the velocity of money high (i.e., active trading). Many investors also tend to view each account—IRA, 401(k), taxable account—in isolation rather than in aggregate. Let Compass review all your accounts and make specific recommendations to reduce and simplify so your assets can be positioned to provide maximum benefit.

TIP 3 | Asset Allocation/Diversification. Just as a lack of diversification can be problematic, so is *too much* diversification. In fact, excessive diversification presents a serious hurdle to wealth building. Proper portfolio diversification limits risk of loss without sacrificing potential gains. Spreading money too thin is not advantageous—the loss of potential gains more than offsets the added reduction in risk. So before you start looking to expand your investing buffet, make sure to have your basic stock/bond mix correct.

TIP 4 | Rebalance. Over time, your portfolio will migrate away from its target asset allocation. The act of adjusting the portfolio to its target allocation is called "rebalancing." Rebalancing is a sensible and effective way to buy low and sell high by removing the emotions that interfere with your investment decisions. Rebalancing accomplishes two important aspects to successful investing: enhancing long-term performance and mitigating risk. We have had periods where our rebalancing discipline has added nearly 400 basis points (4%) annually to our return.

TIP 5 | Confirm Beneficiary Designations. Traditionally, not considered investment advice, many sophisticated investors designate beneficiaries without fully considering the ramifications of their actions. That makes these innocuous looking legal documents ripe for unintended consequences. Even more common is failing to update this designation as life circumstances change—if you get married, divorced or remarried, for example. Creating an estate plan (drafting wills and trusts) may not be enough as beneficiary designations (e.g., IRAs) actually supersede what is laid out in your estate plan. Take time periodically to review your documents.

Successful investing is neither chaotic nor incoherent. It is long-term in orientation (the idea is not only to make money, but to keep it) and should also be understandable and transparent. This is our resolution at Compass: We hold 25 high-quality stocks in our client portfolios where stocks are appropriate and own high-quality, intermediate-term bonds in portfolios which require bonds. By design, we have been following this discipline for 25-years because it makes sense and has produced strong results with reasonable risk characteristics over many years. In a world of complexity and confusion, let us help you.

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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