VOLATILITY BRINGS LONG-TERM OPPORTUNITY; FOCUS ON FUNDAMENTALS, NOT ENDPOINTS

Volatility has returned to the market with some of the most extreme monthly movements since the 2008 financial crisis. Investors were no doubt pleased to put 2018 in the rear-view mirror. The heightened volatility took many by surprise. Investors had become accustomed to low levels of volatility in 2017, while 2018 actually marked a return to "normal levels." For example, the S&P 500 Index moved up or down by more than 1% in a single day on 62 occasions in 2018—a sharp increase from nine occasions in 2017. But what is often missing in the discussion about this volatility is that it didn't stem from a broad deterioration in economic fundamentals.

The markets hate uncertainty and today we certainly have plenty of it. Geopolitical concerns—such as weakening European and Chinese economies, a tumultuous Brexit process, and tension between the U.S. and China on trade—dominate daily market movement. While these are some of the many variables contributing to current equity market volatility, we believe the primary factor behind the state of the market is the unwinding of the decade-long stimulative effects of global central bank policies.

Returning to "normalized" monetary policy

A decade ago, global central banks took unconventional measures to stimulate their economies, including the large scale asset purchases known as Quantitative Easing (QE). The U.S. is the first major central bank to begin unwinding from reliance upon the post-crisis QE towards a "normalized" monetary policy approach: raising short-term interest rates (9 rate increases since December 2015). We view this "normalization" as a ***positive*** influence while the U.S. economy continues to grow, maintains a low unemployment rate, and witnesses modest wage growth. Until the Federal Reserve halts this process, financial assets will continue to see a "repricing" as future earnings of companies have less value as rates rise. Equities have historically been able to perform well in rising-rate environments, if the increase is expected and measured, allowing companies time to adjust. The Compass investment team continues to monitor and evaluate our current portfolio—avoiding low-quality companies with deteriorating balance sheets, especially those companies that gorged on cheap liquidity. We continue to target high-quality companies generating top line revenue growth that are able to convert that growth into increased earnings per share while also generating generous amounts of free cash flow.

Opportunities for long-term investors

Short-term investors are becoming increasingly anxious about the risk of a recession, which is likely adding to the volatility as well as creating opportunities for long-term investors. Periods of volatility allow the Compass investment team to ask productive questions about companies, including whether selling should be considered. Or, has a company that we have been researching become attractive enough to warrant buying? Compass took advantage of the repricing and mispricing situation in 2018 by upgrading our core equity portfolio with the addition of Church & Dwight (CHD)[1] and Walgreens Boots Alliance (WBA).[1]

What's next?

It's a reality that the investment landscape is continually changing—markets are going up and down daily, and economic and political forces are constantly shifting. It's also important to remember is that the underlying fundamentals for the businesses we own do not fluctuate as dramatically as the daily swing in stock prices. Successful investing is not a matter of trying to determine the unknowable (such as the direction of the market or interest rates). It is a matter of establishing a sound long-term investment policy and following sensible investment disciplines. Once these are in place, much anxiety and distractions are eliminated and we can move on to the fun of looking for mispriced, quality investment opportunities and passing them on to our clients.

[1]Illustrative purposes only. This is not a recommendation to either buy or sell this security.

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AUM

$1.2 billion

INCEPTION

1988

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COMPASS PHILOSOPHY

As an independently-owned firm, Compass provides customized investment services to individuals, foundations/endowments, trusts, and retirement plans. Our objective is to preserve and enhance the real purchasing power of our clients' wealth over time.

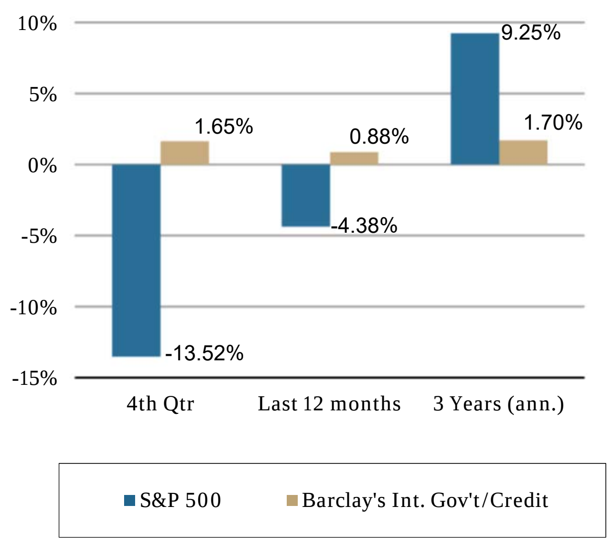
Our clients value working directly with a seasoned and experienced team of portfolio managers to help them navigate their investments relating to:

-Building a quality portfolio
-Retirement
-Sale of a business
-Divorce
-Inheritance
-Trust distribution

Our experienced team is always available to provide financial advice and review your financial assets

MARKET INDICES

Total Return as of 12/31/18



For more information regarding our company or results, please contact us at investors@compasscap.com.