



## A FEW THOUGHTS FOR TIMES LIKE THESE

Only 1 month ago, U.S. stock indexes were reaching record highs as the bull market was nearing its 11-year anniversary (from the March 2009 lows). The attention of the market has quickly changed to the election, coronavirus, the precipitous retreat in oil prices, and the lowering of interest rates by the Federal Reserve. In addition, investors are increasingly skeptical of long-term global growth prospects in the current economic environment. No wonder many investors feel confused and a bit exhausted.

What the beginning of 2020 has once again made abundantly clear is that world-changing events are unpredictable. Therefore, a robust investment strategy must not be based on the ability to predict the future accurately. For this reason, market-timing, passive investing, and buying only short-term bonds are strategies to avoid. Successful investing is not dependent upon speculating about the future, but upon taking advantage of mispriced opportunities as they present themselves.

Because the future cannot be predicted with certainty, we believe an investment portfolio should emphasize high-quality, individual stocks and bonds. When either the economy weakens or the markets experience increased volatility, it is vital to hold companies that will not only survive, but thrive. A prudent investor should take the approach that volatility is likely to be an integral part of any long-term investment time horizon.

Here are a few items the Compass Investment Team routinely discuss as part of our ongoing portfolio management process:

- 1. Investment Policy Reviews:** Each account we manage has a written Investment Policy Statement (IPS) that outlines agreed-upon target asset allocations. Our strategy of reviewing these policy statements in an ongoing manner ensures that they continue to reflect a client's long-term return expectations, risk tolerances, and income needs.
- 2. High-Quality Stocks:** Know what you own. We own a diversified portfolio of 25 mid-to-large capitalization, growing companies that share characteristics such as strong free cash flow, dedicated management teams, and solid balance sheets.

These are generally purchased when they represent a good value for long-term wealth creation. This practice provides investors with the confidence to buy when others are selling. Also, our emphasis on quality and valuation when selecting stock purchases tends to help our companies better withstand downturns in the economy.

- 3. High-Quality Bonds:** High-quality bonds have been terrific performers as market volatility has increased. Some investors are now concerned that interest rates may continue to fall and even go negative like in Europe and Japan. At Compass, we own high-quality, intermediate-term bonds for capital preservation, liquidity, and income. We construct our bond portfolios by equally weighting our maturities 1 to 10 years. We ladder to mitigate risk and control volatility within the portfolio. The primary goal of a laddered bond portfolio is to achieve a total return over various interest rate cycles similar to that of a longer-term bond, but with less market risk. We also have the flexibility to customize our tax-exempt portfolios (i.e., purchasing state-specific or national bonds depending on residency).
- 4. Rebalancing:** Over time, portfolios will migrate away from the target asset allocations that were outlined in the IPS. 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 because it removes the emotions that interfere with good investment decisions from the process. The practice of rebalancing accomplishes two important aspects of successful investing: enhancing long-term returns and mitigating risk.

The current investment landscape is volatile (markets are moving up and down daily—sometimes by 2, 3, or 4%), while economic and political forces are shifting. Nevertheless, following certain time-tested investment disciplines will likely continue to produce desirable results. Successful investing is not a matter of trying to determine the unknowable (such as the direction of the market in the short term, the fluctuation of interest rates, or the spread of a virus). Rather, it is a matter of establishing a sound long-term investment policy and following sensible investment disciplines. Once these are in place, much of the anxiety and distraction disappears, and the Compass Investment Team can continue to locate mispriced, high-quality investment opportunities for you and your portfolio.



**FIRM**

**INVESTMENT COMMITTEE**

- Charles Kelley, CFA
- Leigh Niebuhr
- Mark Halverson
- Jay Jackley, CIMA
- Mark Vitelli, CFA
- Christopher Kelley, CFA, CAIA

**AUM**

\$1.4 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.

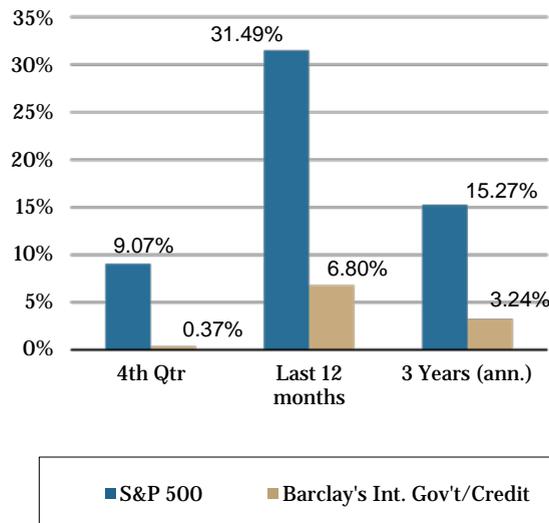
Our clients value working directly with a seasoned and experienced team of portfolio managers to help them navigate their investments relating to:

- 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 12/31/19



For more information regarding our company or results, please contact us at [investors@compasscap.com](mailto:investors@compasscap.com).