COMPASS WATCH

Winter 2022 Newsletter

VOLATILITY VS. RISK

Kicking off 2022, the Federal Reserve has adjusted its policy by raising rates and ending asset purchases to combat inflation. At the same time, the economy is facing other challenges, including the lingering pandemic, the Russian/Ukraine war, rising oil prices, and continued frozen global supply chains. As a result, this year is the 5th poorest start for the S&P 500 Index since 1927.[1]

Equities have been volatile in 2022. However, it's notable that the financial media tends to misuse the terms volatility and risk, and often uses them interchangeably. On the surface, the distinction between risk and volatility may seem academic, a distinction that only finance professionals might debate about and that has little implication for real-world investors, but in reality the differences are critical for investors to understand.

Risk may be defined as the chance that you won't meet your long-term financial goals or may permanently lose capital.

Volatility, on the other hand, measures the magnitude of changes in the price of a security (both positively and negatively). If you are not selling, rather than being a problem, volatility more likely indicates an opportunity to purchase high-quality companies at reasonable prices.

At Compass, we focus on assisting long-term investors to build a portfolio that can manage risk and capitalize on volatility. Our approach to planning and asset allocation prepares investors for inevitable, yet unpredictable, market volatility. Additionally, by owning the appropriate high-quality assets, investor's needs are met in times of market stress, and we are able to make opportunistic investments with confidence.

Planning and Asset Allocation

The first step in creating a successful portfolio is identifying an investor's needs, goals, and risk tolerance. From there, an appropriate asset allocation plan using stocks and bonds can be built, with each asset class playing an intentional role in the portfolio.

Stick With High-Quality Investments

In managing fixed-income portfolios, our bond discipline focuses on high-quality, intermediate-term bonds (with a maturity date), including municipals, corporates, and U.S. Treasuries for capital preservation, liquidity, and income. We align the bond portfolios with a client's "can't lose" money and any specific cash flow needs. With these thresholds covered, there's less of a need to sell stocks in times of volatility. Investors can feel calm knowing their finances are secure.

Our core individual stock discipline emphasizes high-quality, mid-to-large capitalization, multinational growth companies purchased when they represent a good value for long-term wealth creation. The role of stocks in the portfolio is growth.

Bonds play the role of safety provider for your portfolio. It's a common pitfall to "chase yields" or extend duration and increase bond portfolio risk, which actually acts contrary to the intention of creating a safety net. In volatile times, high-quality bonds tend to appreciate as demand increases prices. Prepared investors can often trim their appreciated bonds to be able to buy stocks with discounted prices and achieve higher growth rates over time

When holding or buying additional shares of discounted stocks in turbulent times, investors need to have conviction that the companies they invest in will endure the market cycle and become stronger. We seek to invest in companies that have common characteristics, such as strong free cash flow, healthy balance sheets, diversified businesses, and strong management teams that have a proven track record operating across market cycles.

Rebalance

Over time, an investor's portfolio will slowly 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 avoiding the emotions that interfere with good investment decisions. This accomplishes two important aspects to successful investing: enhancing long-term performance and mitigating risk.

Because of the way Compass plans and manages risk, both anxieties and distractions are reduced. We can confidently move on to the fun of looking for mispriced, high-quality investment opportunities for our clients.

1 J.P Morgan, Global Markets Strategy, 3/17/22

FIRM

INVESTMENT COMMITTEE

Charles Kelley, CFA

Leigh Niebuhr

Mark Halverson

Jay Jackley, CIMA

Mark Vitelli, CFA

Christopher Kelley, CFA, CAIA

AUM

$2.0 billion

INCEPTION

1988

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.

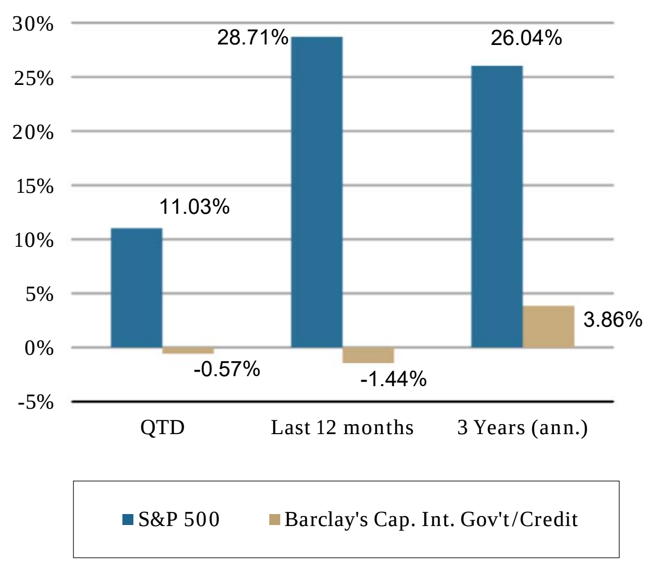
Our clients value working directly with a seasoned and experienced team of portfolio managers to help them navigate their investments relating to:

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

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

MARKET INDICES

Total Return as of 12/31/2021



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

COMPASS
CAPITAL MANAGEMENT

706 Second Avenue South • Suite 400 • Minneapolis, MN 55402 • 612.338.4051
www.compasscap.com