Two boats passing at sea one going east one going west both driven by the same wind
One will reach its intended port, the other will not
It's the setting of the sails
It's the same with investing and Compass Financial Strategies can help you set your
Financial sails

Compass
FINANCIAL STRATEGIES

Outline

- Review Market 2010
- Portfolio Construction
- World Economy
- Bonds = Safety ?
- This and That
- Wrap Up

Compass FINANCIAL STRATEGIES

Building Expectations without gambling with your Money

COARSE UPDATE

Compass
FINANCIAL STRATEGIES

Headlines:

- Lately, the brokerage business have been telling investors to slow down and think long-term has become the *hot* new thing

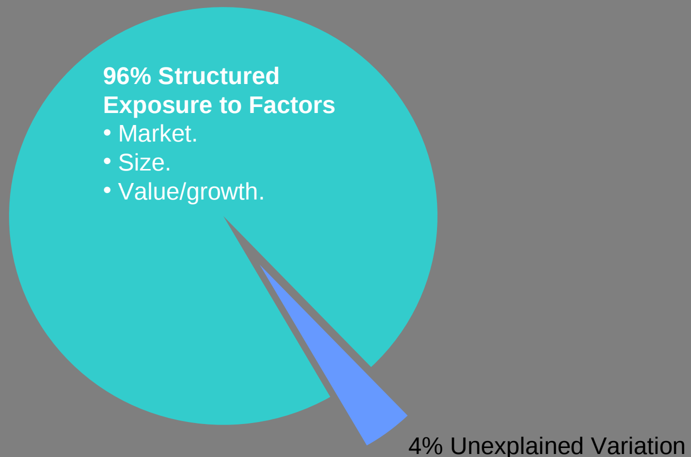
We have news!

- We’ve been doing that for over 15 years…
- WOW! WOW!! WOW!!! Meetings
- Market cycles…
  - Aggressive 10-12 years
  - Growth 8-10 years
  - Balanced 5-8 years
  - Income 1-4 years

“FORECASTER”

- Someone who makes predictions of the future (usually on their basis of special knowledge)
- A prediction about something that will happen or develop

Structure Determines Performance



Over 96% of the variation in returns is due to risk factor exposure.

After fees, traditional management typically reduces returns.

The Model Tells the Difference between Investing and Speculating

average expected return (minus T-bills) = average excess return + sensitivity to market [market return minus T-bills] + sensitivity to size [small stocks minus big stocks] + sensitivity to BtM [value stocks minus growth stocks] + random error e(t)

Priced Risk
- Positive expected return.
- Systematic.
- Economic.
- Long-term.
- Investing.

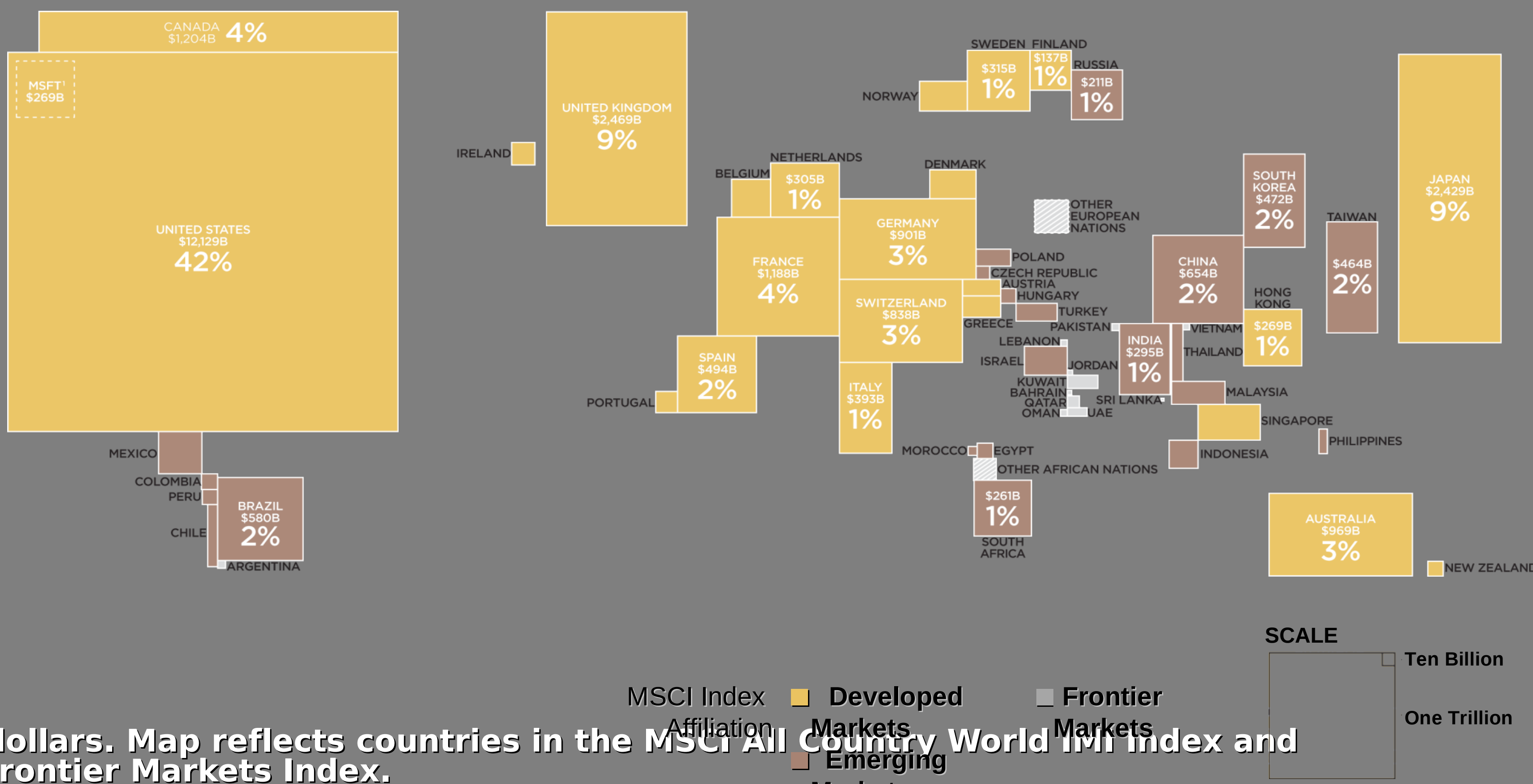
Unpriced Risk
- Noise.
- Random.
- Short-term.
- Speculating.

Source: Dimensional Fund Advisors study (2002) of 44 institutional equity pension plans with $452 billion total assets.
Factor analysis run over various time periods, averaging nine years. Total assets based on total plan dollar amounts as of year end 2001.
Average explanatory power (R^2) is for the Fama/French equity benchmark universe.

S1042.4

World Market Capitalization

$28.6 Trillion as of December 31, 2009



In US dollars. Map reflects countries in the MSCI All Country World IMI Index and MSCI Frontier Markets Index.

Market cap data is free-float adjusted. MSCI data copyright MSCI 2009, all rights reserved. Vietnam data provided by MFMI. Many small nations not displayed. Totals may not equal 100% due to rounding. For educational purposes; should not be construed as investment advice. 1. An example large cap stock provided for comparison.

Performance Summary Statistics

By 06/2010; Default Currency: USD

	US Consumer Price Index	Russell 3000 Index	MSCI EAFE Index (gross div.)	MSCI Emerging Markets Index (gross div.)	Barclays Capital US Government/ Credit Bond Index
1-Year Total Return (%)	1.05	15.72	6.38	23.48	9.65
3-Year Annualized Return (%)	1.51	-9.47	-12.94	-2.22	7.37
5-Year Annualized Return (%)	2.31	-0.48	1.35	13.07	5.26
10-Year Annualized Return (%)	2.38	-0.92	0.59	10.34	6.48
20-Year Annualized Return (%)	2.63	7.87	4.36	9.64	7.15
Annualized Return (%) 01/1988-06/2010	2.88	9.10	4.92	13.19	7.43
Annualized Standard Deviation (%) 01/1988-06/2010	1.14	15.02	17.47	24.24	4.50
Growth of Wealth 01/1988-06/2010	1.89	7.10	2.94	16.25	5.01
Lowest 1-Year Return (%)	-10.77% (11/31-10/32)	-43.51% (3/08-2/09)	-49.94% (3/08-2/09)	-56.42% (12/07-11/08)	-8.62% (4/79-3/80)
Highest 1-Year Return (%)	20.10% (4/46-3/47)	66.43% (7/82-6/83)	103.70% (9/85-8/86)	92.14% (3/09-2/10)	33.53% (10/81-9/82)
Lowest 3-Year Annualized Return (%)	-9.66% (5/30-4/33)	-15.84% (4/00-3/03)	-19.30% (4/00-3/03)	-18.18% (9/95-8/98)	-0.52% (4/77-3/80)
Highest 3-Year Annualized Return (%)	11.95% (10/78-9/81)	31.58% (4/95-3/98)	58.36% (8/84-7/87)	46.66% (4/03-3/06)	19.15% (7/82-6/85)

See Standardized Performance Data & Disclosures.

Selection of funds, indices and time periods presented chosen by client's advisor. Indices are not available for direct investment and performance does not reflect expenses of an actual portfolio. Past performance is not a guarantee of future results.

Bonds = Safety ? *Maybe*

- Only Two sources of Returns
  - Yield (1990's averaged 5% to 9%)
  - Price Appreciation
    - Barclays Govt/Credit Last 10 years 5.5%
    - Current around 3.5%
    - Massive new debt would suggest farther decline in yields
    - Increasing Interest rates could reduces bond values
    - Higher exposure to Global default

- But!!

- ***Bonds still have a place in long-term allocations but too much of a good thing may turn out to be a bad thing***

This and That

- Unemployment Picture
  - Historical Review
- Daily market activity

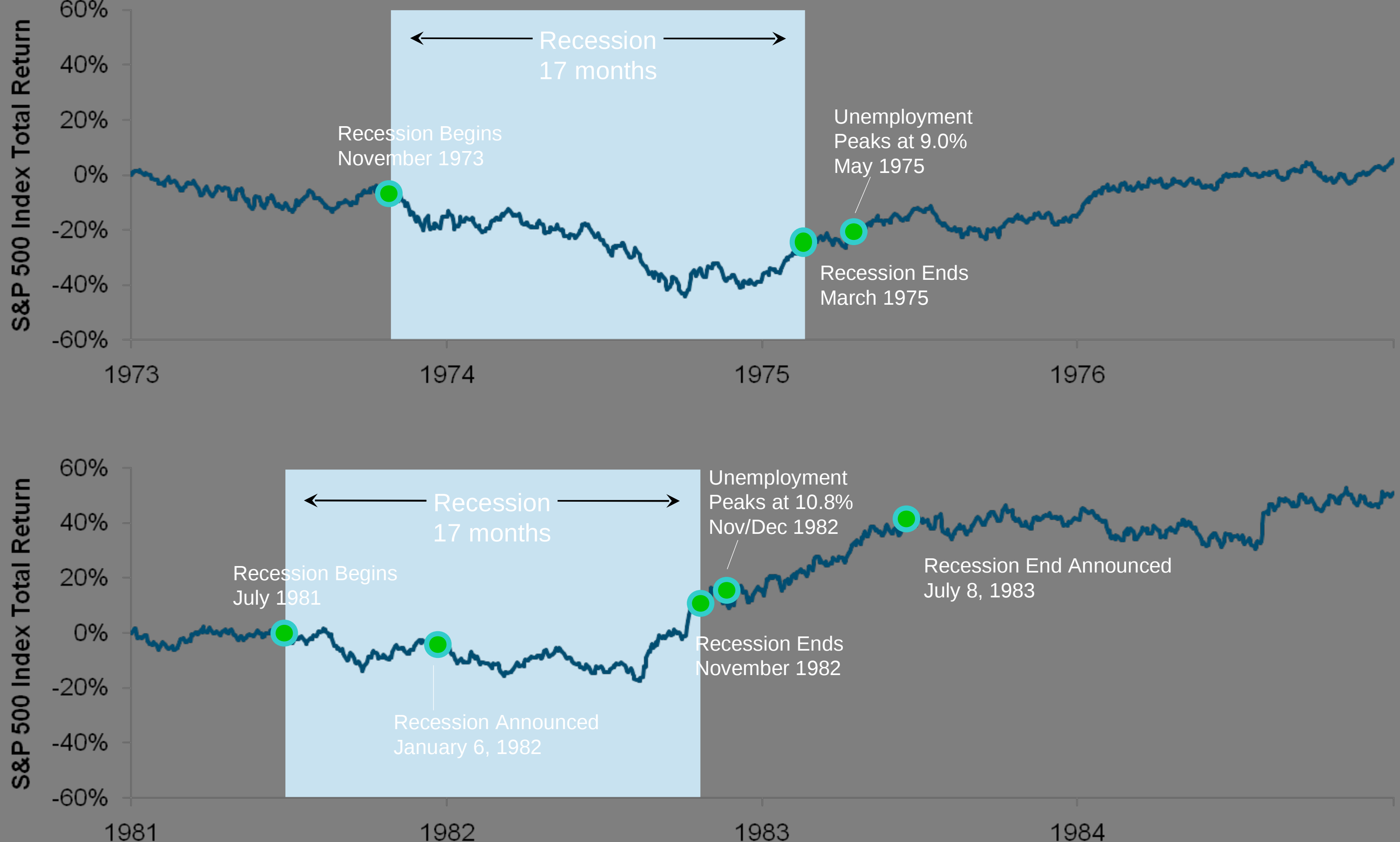
Recessionary Periods
Observations

S1396.3

- The last four recessions have looked different in terms of length, stock market performance, unemployment rates, and subsequent recovery.
- In each of the last four recessions prior to 2007, unemployment rates peaked after the recession ended.
- Stock markets tend to be a leading indicator of economic prosperity, and in each case, the S&P 500 Index started to rebound before the end of the recession was announced.

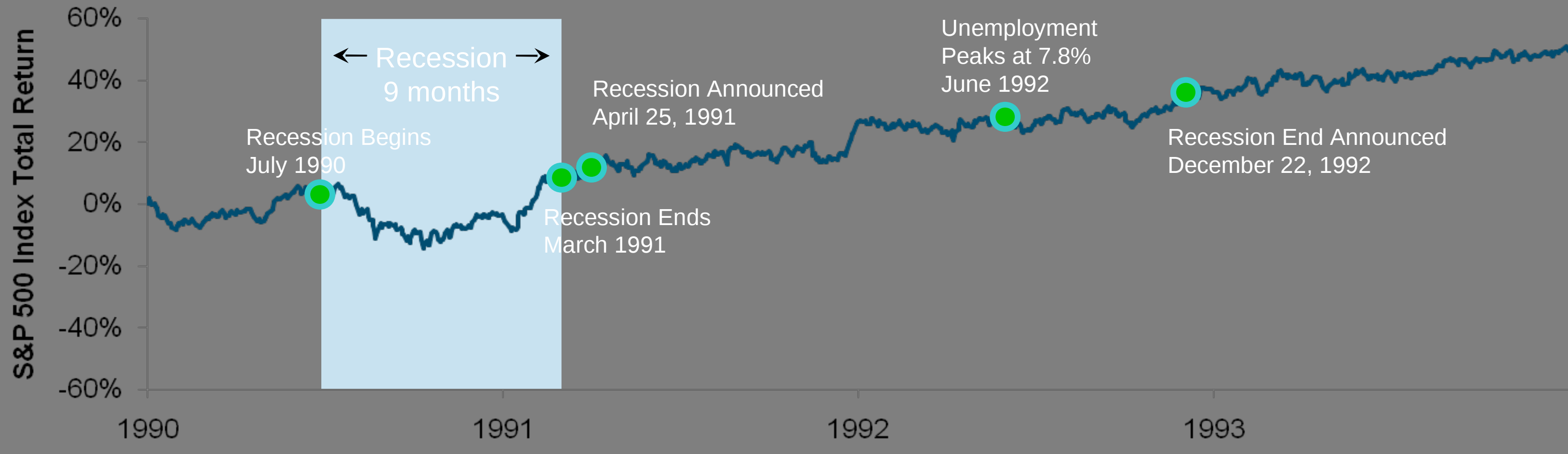
S1396.3

Recessionary Periods
Mid 1970s and Early 1980s



Prior to 1979, there were no formal announcements of business cycle turning points.
Indices are not available for direct investment; their performance does not reflect the expenses associated with the management of an actual portfolio. For illustrative purposes only. Past performance is not a guarantee of future results and there is always the risk that an investor will lose money. Source: National Bureau of Economic Research (NBER) for economic expansions and recessions data; the S&P data are provided by Standard & Poor's Index Services Group; US Bureau of Labor Statistics for unemployment data.

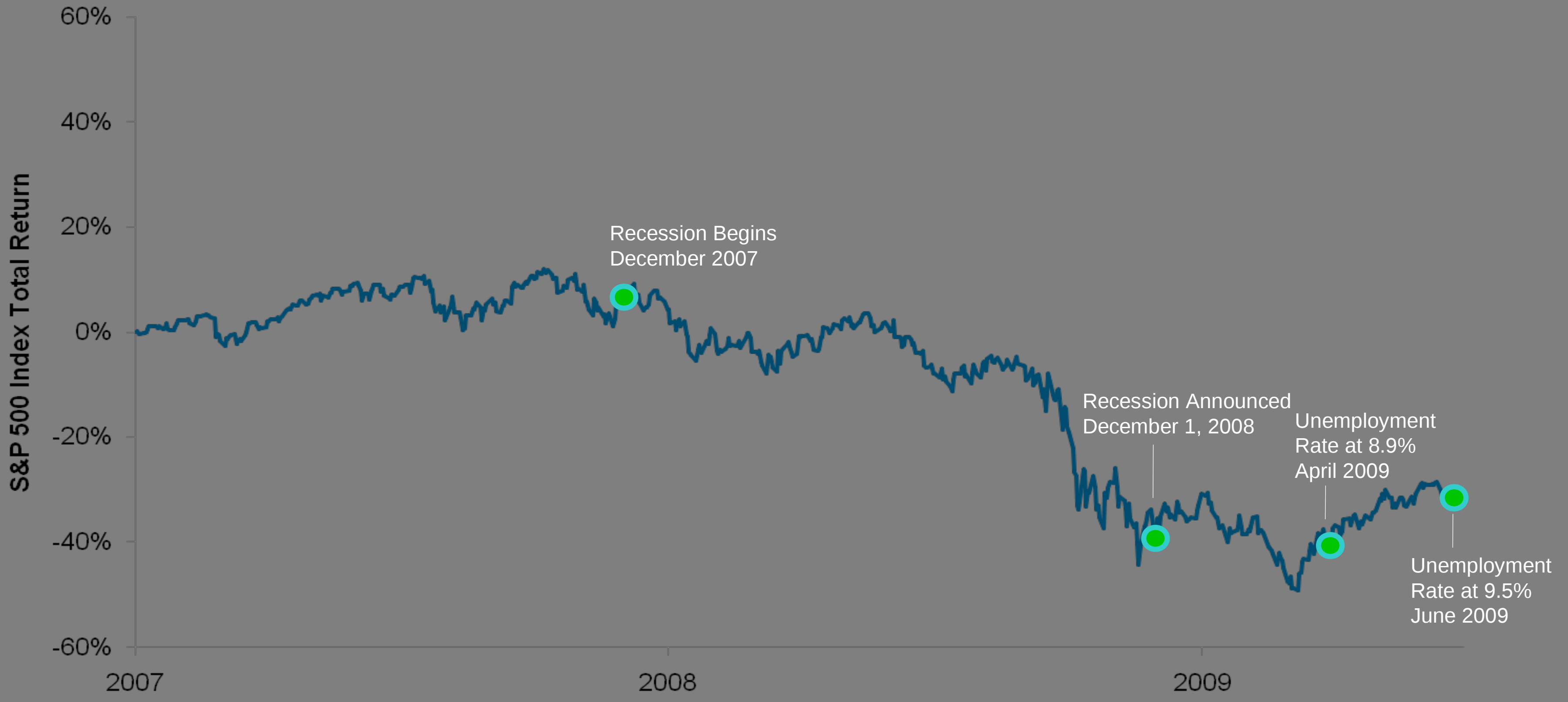
Recessionary Periods
Early 1990s and Early 2000s



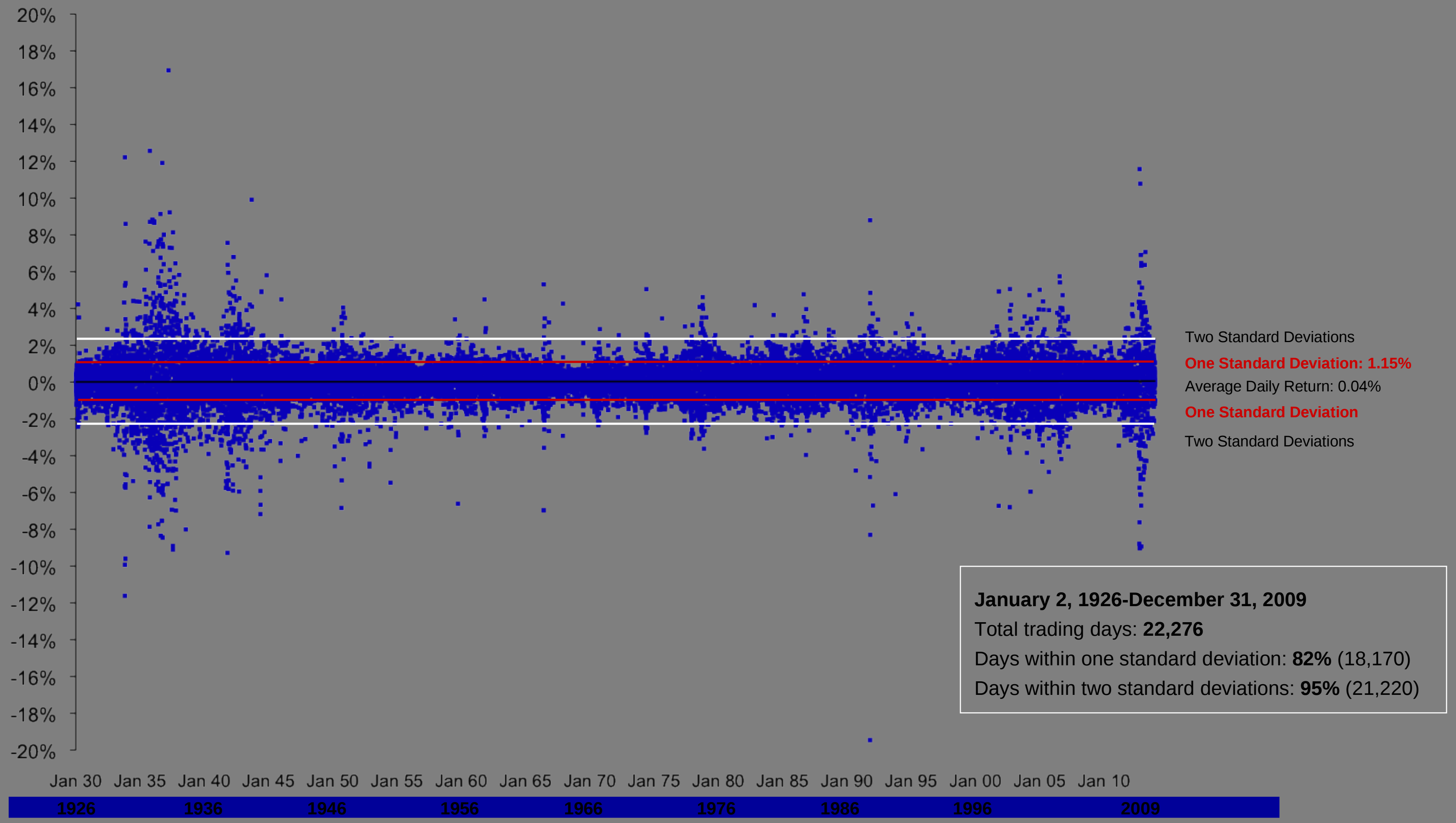
Indices are not available for direct investment; their performance does not reflect the expenses associated with the management of an actual portfolio. For illustrative purposes only. Past performance is not a guarantee of future results and there is always the risk that an investor will lose money. Source: National Bureau of Economic Research (NBER) for economic expansions and recessions data; the S&P data are provided by Standard & Poor's Index Services Group; US Bureau of Labor Statistics for unemployment data.

Recessionary Period
January 2007-June 2009

S1396.3



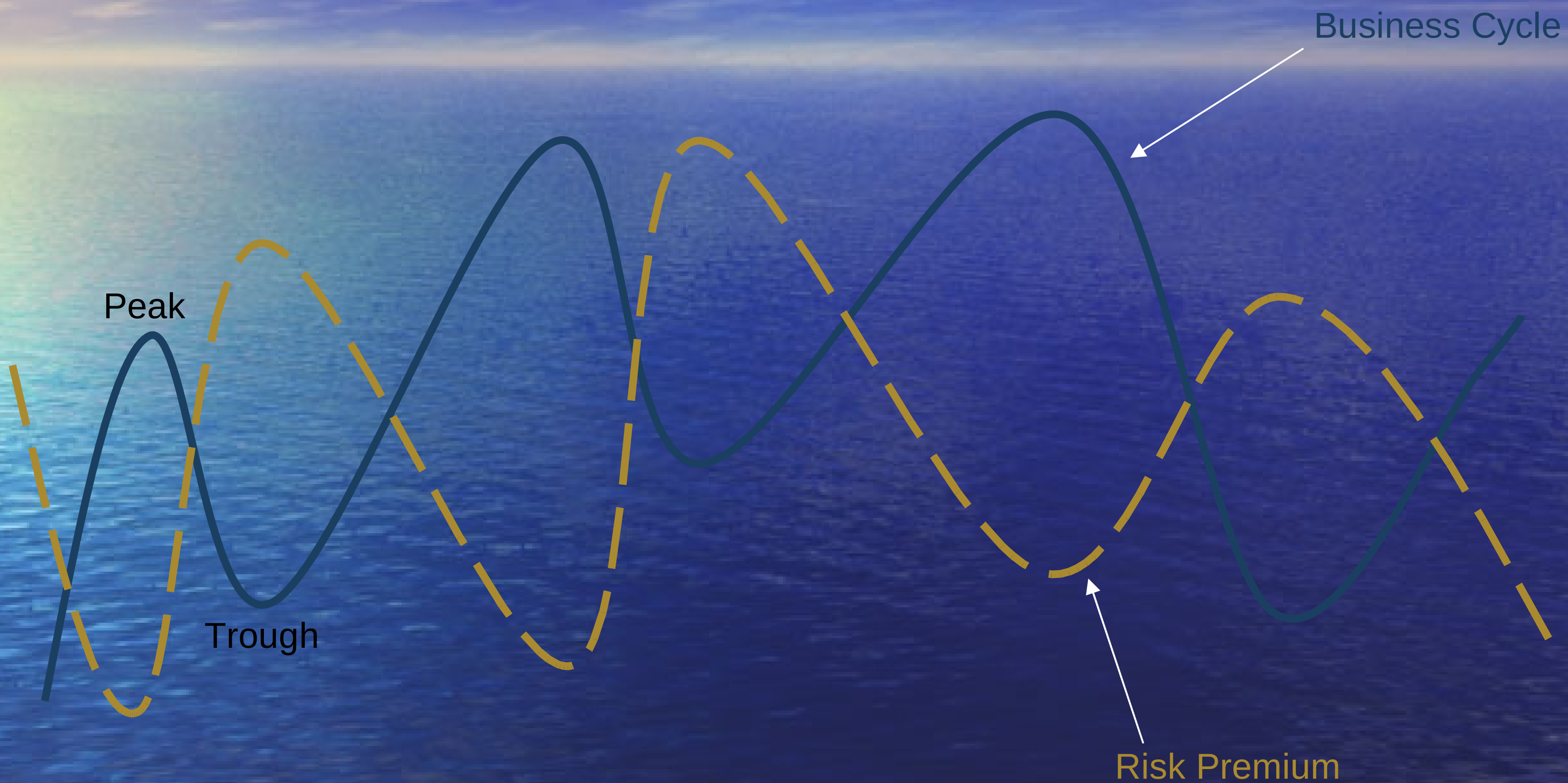
Indices are not available for direct investment; their performance does not reflect the expenses associated with the management of an actual portfolio. For illustrative purposes only. Past performance is not a guarantee of future results and there is always the risk that an investor will lose money. Source: National Bureau of Economic Research (NBER) for economic expansions and recessions data; the S&P data are provided by Standard & Poor's Index Services Group; US Bureau of Labor Statistics for unemployment data.



Returns shown are for the S&P 500 Index. The S&P data are provided by Standard & Poor's Index Services Group.
Indexes are not available for direct investment; their performance does not reflect the expenses associated with the management of an actual portfolio.
Past performance is not a guarantee of future results. Not to be construed as investment advice.

S1273.2

Market Risk Premium Is Countercyclical



The risk premium is the additional return an investor requires to compensate for the risk borne. Business cycle is a repetitive cycles of economic expansion and contractions. Peak is the high point at the end of an economic expansion until the start of a contraction. Trough is the transition point between economic recession and recovery.

Thanks for joining us!

- You can always contact us at:
- 325 672 9230 office
- 325 829 1781 Cell-LeRoy
- 325 668 57 48 Cell Deborah

- www.compasstx.com