

True North

Compass Financial Consulting, LLC

Providing Financial Direction

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Have You Met Mr. Market?

It is hard to believe that we are almost five years removed from the market implosion of 2001. Recently, investors gained some small satisfaction watching Bernie Ebbers of Worldcom fame and the Tyco twins, who managed to swindle a measly \$600 million from their company, being sentenced to jail time for their misdeeds. We are approaching the final chapter in the saga of greed and corruption that took place in those glorious days of irrational exuberance. If anything, that market affirmed that many of the long-term principles for successful investing will always apply. One of the greatest investment books ever written detailing these principles was written in 1949 by Ben Graham titled, The Intelligent Investor. We are sure you can guess how many dot.com investors or Merrill Lynch analysts were reading this classic back in the spring of 2000. We would argue that it wasn't many as, after all, investors were in the "New Economy" and figured many of the "Old Economy" principles no longer applied. Speaking about the market crash of the 1920's, Ben Graham said "The market made up new standards as it went along, by accepting the current price, however high, as the sole measure of value." The same certainly can be said about the market of the late 1990's.

Getting back to Mr. Graham's book, a character that is introduced and mentioned throughout is named Mr. Market. Mr. Market's job description is as follows: *"Imagine that in some private business you own a small share that cost you \$1,000. One of your partners, named Mr. Market, is very obliging indeed. Every day he tells you what he thinks your interest is worth and furthermore offers either to buy you out or to sell you*

an additional interest on that basis. Sometimes his idea of value appears plausible and justified. On the other hand, Mr. Market often lets his enthusiasm or his fears run away on him, and the value he proposes seems to you just a little short of silly."

Mr. Market sure is an interesting character, and it is amazing the control he has over investor's feelings. Mr. Market also has a television show that comes on at 4 pm EST which, coincidentally, is exactly when the stock market closes for the day. Similar to other afternoon shows, ala Dr. Phil, Mr. Market's show tries to tell people how to feel. If everybody was getting high prices, well then, we should feel good. If we were getting low prices, we should feel bad. Would you agree to be giddy or depressed just because our gracious television host thinks you should be? Our guess is that you would answer, "No way!" But yet, when it comes to the stock market, millions of investors let Mr. Market tell them how to feel and what to do despite the fact that Mr. Market often becomes grossly out of touch with reality. Sure, there are times when Mr. Market accurately prices stocks the way a private buyer would value a business but more often than naught Mr. Market acts in a manic-depressive manner letting his emotions influence his view of the prices he will pay. In a bull market he happily pays the going price oblivious to the true value of the investment he is buying. There is an opposite feeling in a bear market when any price is fair, and he urgently looks to unload his investments.

So should an intelligent investor ignore Mr. Market? "Absolutely not", would be

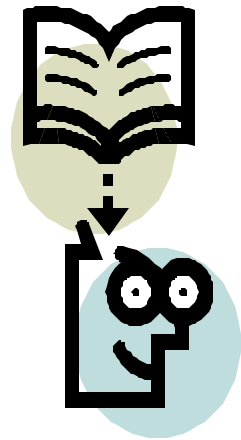
our answer. Mr. Market gives us an opportunity to earn good returns over time by doing business with him when it is in our interest, and then managing to rebuff him the rest of the time. Mr. Market's job is to provide us with prices for your investments; our job is to decide whether it is to your advantage to act on his prices. In no way are we required to trade with him just because he is pleading with us to act.

Winning at the investment game boils down to how you deal with Mr. Market and being able to control your own emotions. Don't get caught up in the trap by judging your financial performance with a group of strangers. You're not any richer or poorer if someone in your golf group outperforms your portfolio over a one year time frame. We heard a speaker ask a group of retirees if they had beaten the market over their investing careers. Some said "no", some said "yes" and most did not know. Then one lady stood up and asked, "Why should I care?" She went on to explain that she had no idea of her investment performance over the past 20 years. She elaborated that her advisor managed her money and emotions in such a way that allowed her to retire when she wanted and afforded her the lifestyle of which she dreamed.

We loved her answer because it highlights the fact that investments are merely a tool intended to help you accomplish your financial goals. We would advise that measuring investment success is not whether you beat the S&P Index over a 20 year time period, but whether or not you have put in place an investment plan and behavioral discipline that is going to ultimately get you to your financial finish line.

So You Want to Learn More About Mr. Market...

All this talk about Mr. Market got us thinking about some of the other good investment books we have read over the years. Many clients ask us to recommend reading to enhance their personal financial education. Well, aside from The Intelligent Investor



mentioned in the first article, we have three other good ones to recommend to you: Stocks For the Long Run by Jeremy Siegel; Against the Gods by Peter Bernstein and Markets, Mobs & Mayhem by Robert Menschel. We thought we would share with

you the types of insights these authors put forth in their writings.

From Stocks For the Long Run:

**The focus of every long-term investor should be the growth of purchasing power -- monetary wealth adjusted for the effect of inflation.*

**For ten-year holding periods, the worst stock performance has been better than that for bonds or bills.*

**Once inflation begins to accelerate, the process becomes cumulative, and bondholders have no chance of making up losses to their purchasing power. Stockholders, holding claims on real assets, rarely suffer a permanent loss due to inflation.*

**The worst course an investor can take is to follow the prevailing sentiment about economic activity. This will lead to buying at high prices when times are good and everyone is optimistic, and selling at the low when the recession nears its trough and pessimism prevails.*

From Against the Gods:

**The math of diversification helps to explain its attraction. While the return on a diversified portfolio will be equal to the average of return on its individual holdings, its volatility will be less than the average volatility of its individual holdings. This means that diversification is a kind of free lunch at which you can combine a group of risky securities with high expected return into a relatively low risk portfolio, so long as you minimize the correlations among the returns of the individual securities.*

**Well-informed investors diversify because they do not believe that investing is a form of entertainment.*

**The capital markets are not accommodating machines that crank out wealth for everyone on demand. Except in limited cases like holding a zero coupon debt obligation or a fixed rate CD, investors in stocks and bonds have no power over the return they will earn. Even the rate on savings accounts is set at the whim of the bank, which responds to the changing interest rates in the market themselves. Each investor's return depends on what other investors will pay for assets at some point in the uncertain future, and the behavior of countless other investors is something that no one can control, or even reliably predict.*

From Markets, Mobs & Mayhem:

**Stock markets seesaw between greed and fear. They always have, and they always will because the people whose decisions drive the markets seesaw between greed and fear themselves.*

**Suffice it now to list three general principles that should help you avoid the Enrons of the future:*

**The faster a stock has climbed, the quicker it will fall. In investing as in*

hare-and-tortoise races, slow and steady gets the prize.

**The easier information arrives, the less valuable it is. Good investment decisions are hard work, undertaken and arrived at one at a time.*

**The more certain the crowd is, the surer it is to be wrong. If everyone were right, there would be no reward.*

**Remember that stock markets are always shifting between greed and fear. At the extreme of greed, great buys simply disappear, no matter how hard we might try to wish them into reality. At the extreme of fear, when all the excess has been wrung out of the market, great buys are all over the place.*

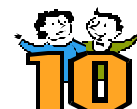
**Remember, too, that the stock market always comes back, no matter how shocking the events that drive it down. Fear subsides; intrinsic value wins out.*

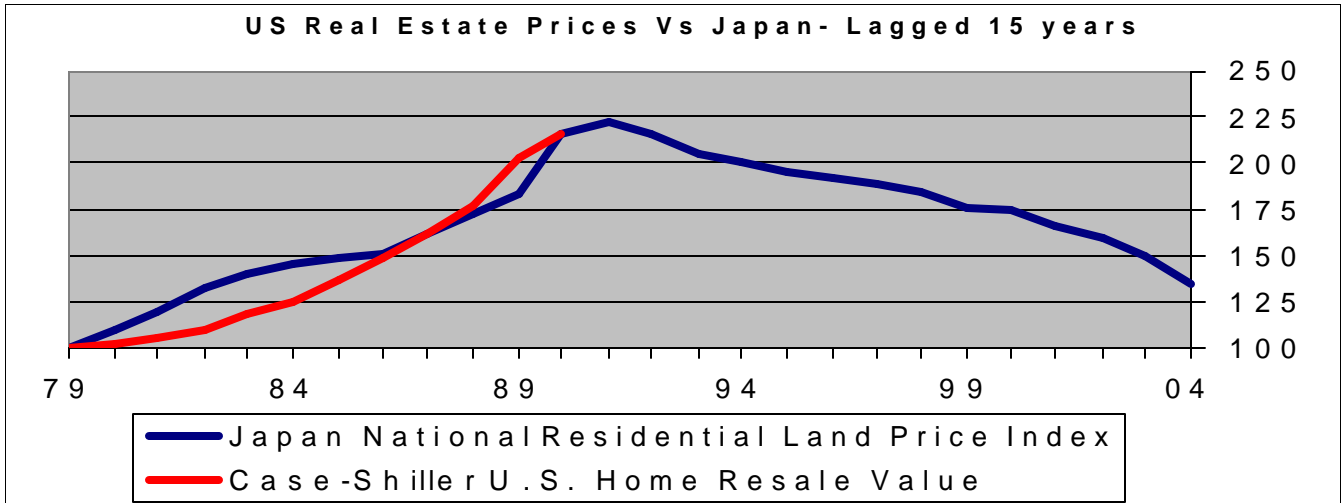
A Decade's Worth of Planning



Over the last month, Compass Financial Consulting has had the tremendous honor of celebrating the 10 year anniversary of our planning

relationship with several of our clients. Now before some of you do the math, let me explain that this includes time spent with these clients at our predecessor firm. We are grateful to these clients who have allowed us to be a part of their financial team for the past decade and we can easily say that without their support and encouragement along the way, we would be a much different firm today. So thanks to our first group of 10 year clients, Jeff and Greta Beech, Steve and Elaine Franklin and Eleanor Davis.





The next time a real estate broker, mortgage broker, or family member claims that a house or condo is always a good investment show them this chart. Created by the investment research firm, The Leuthold Group, this chart tracks Japan's 1979 to 2004 real estate bubble and bursting. Overlaid on this graph, is the previous ten years of the current US housing market. You will see that, so far, the trends are eerily similar.

Note that Japanese residential values are back to where they were 22 years ago. Those unfortunate enough to have

bought at the 1991 peak, have lost almost 40% over a 14 year period. We show you this chart in our continued effort to counsel about differentiating a home as a lifestyle choice rather than an investment. This chart clearly shows the risk experienced by others if they decided to label their purchase "an investment". If this chart isn't enough to raise the "Proceed with Caution" flag, then we have also included a recent article from Forbes magazine sure to scare the housing investment wits out of you! After all, it contains words like "blood bath" and "dire". Let's just say we are trying to inject a healthy degree of skepti-

cism about what Mr. Market is saying about our houses right now. It's done in the spirit of one of our greatest roles regarding your investments which is to sometimes try to instill a bit of fear when Mr. Market is full of greed and a bit of greed when Mr. Market is full of fear.



Many of you have asked us in the past if you are wealthy. For most of you, the answer would be "yes" but take the test below and compare yourself with the wealthy of America and see how you come out. But don't despair if you are labeled a "UAW" as this test does have some faults.

TAKE THE WEALTH TEST

- Household Income: \$ _____
- Age: _____
- Result of 1. x 2.: _____
- Divide line 3. y 10: _____
- Enter your total assets: _____
- Enter any inherited assets: _____
- Enter your debt: _____
- Result of 5. -6. -7.: _____
- Divide line 8. by line 4.: _____

For example:
 1. \$75,000
 2. Age 40

1. x 2. = \$3,000,000
- Line 3. divided by 10 = \$300,000
- Total assets = \$500,000
- Inherited assets = \$50,000
- Debt = \$50,000
- Line 5. -6. -7. = \$400,000
- \$400,000/\$300,000 = **1.33**

What your score means: **2 or higher**- Congrats! Among the 20,000 high-income Americans interviewed by The Millionaire Next Door authors Thomas Stanley and William Danko, you rank in the top 25%. That makes you what they call a PAW- a prodigious accumulator of

wealth. **1 to 1.99** - Your wealth-building prowess is above average, but you'll have to improve to break into PAW territory. **0.51 to 0.99**- You're below average. Look for places to improve (like get younger). **0.5 or lower**- You're what Stanley and Danko refer to as a UAW- an under accumulator of wealth.

*Worth Noting...*For those of you who brag about your coupon clipping skills, check out this fact. According to Ambar Rao, a professor at Washington University in St. Louis, people who use coupons spend an average of 8% more money than people who don't use coupons. Possible reason: Coupon users reward themselves for using coupons by purchasing luxury items.

Compass Clients Live High On The Hog!

A *huge* thanks to Steve and Elaine Franklin for hosting the first annual Compass Financial Consulting, LLC Client Appreciation Dinner. A menu of ribs, pulled pork and beef brisket was served to the nearly 40 clients able to attend. Since many of you live outside of the Atlanta area, Compass has begun negotiations with Steve to take the show on the road with visits to Milwaukee, Dallas, Kansas, Washington DC and perhaps even London.



For those of you who could not make the event, we have done the next best thing. As those who were in attendance will attest, the smell of the barbeque was almost as mouth watering

as the food itself. In fact, we still have the clothes worn at the event hanging up in our kitchens. So below you will find a picture of one of the many plates served that night. Now, if you scratch real hard you can smell the faint, faint smell of barbeque.

Your very own BBO scratch-n-sniff



TRIVIAL PURSUIT

The question for this quarter is: "What is the difference between a hog and a pig?"

The winner of this contest will get a six pack of Steve Franklin's homemade barbeque sauce along with dinner for you and eight of your closest friends specially prepared by Steve. If you do not live in the Atlanta area, then we will treat you and your 8 friends to the best barbeque joint in your city (although you may want to fly to ATL as Steve's ribs are *that* good!)

We will take all correct answers through 5pm Eastern Time on October 31st. You must respond to kraus@financialdirection.com or johnb@financialdirection.com with your answer. If you do not have email you may call us to give us your answer. We will take all correct answers received by the deadline and include those names in a drawing. Staff from the accounting firm of Bridges & Dunn-Rankin will conduct the drawing and certify the results.

Answer for Summer 2005. "What was the first prototype camera produced by the predecessor of Canon called?" Answer: Kwanon. The correct answer as drawn by the staff of Bridges & Dunn-Rankin was Grace Sadiq who won a new Canon digital camera— perfect for snapping pictures of all her grandchildren.



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