

True North

Compass Financial Consulting, LLC

Providing Financial Direction

Spring 2004

North To Alaska

The Iditarod Parallels Our Financial Journey



Back in March, I had the incredible privilege of racing in the first leg of the famed Iditarod race. For those of you unfamiliar with the Iditarod, it is billed as the "Last Great Race" and it has to be true. The race is 1,100 miles of sledding over some of the most rugged terrain in the world and in some of the coldest weather imaginable. It begins in Anchorage, Alaska and finishes in Nome, Alaska. The 2004 winner, Mitch Seavey, finished in 9 ½ days, while the winner of the Red Lantern (last place) finished 15 days after the start of the race (you can read about his race at www.alaskanmusher.com to get a feel of the travails of the trail). The participants race on a sled pulled by a team of 16 dogs across the frozen tundra of Alaska in temperatures that reach 40 below. So what do those kind of temperatures feel like? Polar and Alaskan explorers cite the "30-30-30" rule, which states that at -30°F, with winds of 30 MPH, human flesh will freeze solid in 30 seconds! That is cold. If you don't believe me, you can ask Doug Swingley, a four-time champion who had to abandon the race due to fact that both of his corneas froze on the trail.

The Iditarod is an incredible tapestry, blending some of the most colorful characters (No, they are not talking about me) on earth with dogs capable of unbelievable physical endurance, pursuing a goal through remote, beautiful and unforgiving country that constantly reminds us that nature is bigger and stronger than we are. Part of the lure of this race, which attracts top pilots, volunteers, veterinarians, even some rugged fans, is the thrill that comes

from stepping into this world. Not only surviving in it, but enjoying it.

So on March 7th as a full moon set over Anchorage and the sun rose, warming the 15-degree air to a balmy freezing temperature under a blue sky, the action got under way. I made my Iditarod debut along with musher Sonny Lindner in Anchorage Alaska. Thousands of people, from nearby apartment dwellers to tourists from Europe and Japan, jammed the fenced chute to catch a glimpse of legends like Charlie Boulding, Doug Swingley and DeeDee Jonrowe. Teams took off from the starting line with human luggage - the Iditarod riders - in their sled bags, giving those folks the best seat in the house for an 11-mile run down city streets, on urban cross-country ski paths and eventually over a narrow pedestrian bridge spanning a four-lane highway before rounding out the run on pleasant, groomed trails at the Tozier sprint dog track.

Believe me, what a thrill it is to be led by a group of energetic dogs as we traveled through the streets of Anchorage on the start of this grueling race. Of course, even this ceremonial run had inherent elements of danger in crashing or flipping the sled. One musher was quoted that he tried to ride his sled "like a pianist would play the piano, with rhythm and style, but avoiding the rock n' roll." I would get to experience the fun and safe part of the race, but the next day the 87 teams would head out into the Alaskan wilderness for 10-15 days without fresh linens or even beds. A hot meal was rare and forget about catching the season finale of "The Bachelor." Each team would start out with 16 dogs and would have to finish with at least five. Dogs, and even a few mushers, are often flown out at one of the 20 checkpoints if

they become too sick or tired to continue the race. As it turns out, I was unlucky to my musher, Sonny, as he had to withdraw from the race in the middle of the Alaskan range when too many of his dogs became sick.



So what lessons did I bring home from my Iditarod experience that I can apply to our financial adventures? Well, it takes preparation and guts in the race to the financial finish line. It takes courage to buy stocks when everyone else is selling and to spend less than you make when your friends are buying on credit. As with our financial game plans the race from Anchorage to Nome is an endurance race where it is not so much winning the race as it is completing the race. We will fall off the sled and have to get back on, we will experience some "dog" investments that we have to send home, and we will have to brave

COMPASS FINANCIAL CONSULTING

Continued from page 1

adversity, both personally and globally, many times in our lives. Read the journal of the Red Lantern winner (GB Jones) to see what adversity he faced on his 15 days through Alaska. He injured his back on day 1, the lines of his dogs were constantly being tangled, he crashed his sled on day two, ran into 70 mile per hour winds across one of the mountain passes, ripped both his boots, got lost several times, etc. But you know what every musher (from four time champions to rookies) will say about the race: They all enter it for different goals and if you meet those goals, whatever they are, then you've won the race. As GB Jones so eloquently put it in Nome at the finishing banquet, "It is about the journey. It's all about the journey." Enough said!

The whole experience, from the musher's banquet on Thursday to our last views of the Iditarod seen from a small plane overhead as the teams, looking like ants going to a picnic, raced across the frozen Yukon River, was incredible. A big thanks to my wife, Sue, for accompanying me on this adventure. Although she reminded me it was not the beach, I think she enjoyed herself also. Some day I would like to return to follow the racers from Anchorage to Nome, albeit from the comfort of snowmobiles and ski planes with hot meals and heated rooms. I am just too soft for the real deal. Do I have any takers?

How safe is your money?

Over the past couple of years several of you have asked the question, "How safe is my money at TD Waterhouse?" Well, we used our visit with our TD Waterhouse team in New Jersey to grill them; After all, our money is there also. Let me start out with some basic facts. Securities in a TD Waterhouse account are insured up to \$150 million. The first \$500,000 of coverage is provided by the SIPC, of which \$100,000 covers cash. The remaining coverage is provided through Lloyd's of London. The last time I checked all accounts were safely below \$150 million, although I would like to see that change. Thus, we are offering a free trip to Disney to the first client who reaches \$150 million in their account. Get out those checkbooks!

Many of you also review your accounts on-line and have asked what happens if someone steals my password and accesses the site. First, the site is for your viewing pleasure only. No one can trade on the site nor issue any checks. Second, someone who tries to take the information they see on the site and get into your money will run into a brick wall known as TD Waterhouse. Some procedural items to note include the fact that any checks requested will be made out to the account owner and mailed to their home address. Likewise, any wire transfers must be made to a like titled account (e.g. From the TD Waterhouse account of John Smith to the Bank of Central Georgia account of John Smith). Any exceptions require a notarized request of your signature. And if someone were to steal a check and get it cashed, you would be able to pursue reimbursement from the bank that cashed the forged check.

At the end of the day, I believe there are several systems in place that provide a strong set of checks and balances. TD Waterhouse views each of you as the client. Their job is to ensure that they protect your money at all times and they are not afraid to push back on us if we have not dotted all our "i"s and crossed all our "t"s on the paperwork and requests we submit. On our side, we are also constantly reviewing all activity in the accounts to be sure everything is okay. We review incoming and outgoing money and trades on a weekly basis.

As a last note, I would encourage each of you to retain a sense of vigilance with your money. While we would agree that your reading of prospectuses and annual reports is above the call of duty, we would highly recommend you review your monthly statements and trade confirmations regularly and call us immediately if something just doesn't make sense. Over the years, I believe most of the frauds that have been perpetuated on investors could have been prevented if investors had retained a degree of skepti-

cism. While we value and appreciate your trust we would still encourage you to retain a degree of vigilance when it comes to your money. Trust us, we will never be offended by a call asking us "What the heck is going on with these trades?"

Celebrate Tax Freedom Day

As most of you read this newsletter tax freedom day will have already passed. According to the Tax Foundation, Tax Freedom day will be celebrated on April 11th, which is 3 days earlier than in 2003 and an amazing 21 days earlier than in 2000, when the boom and bubble pushed tax burdens to a record high, and Tax Freedom day was postponed until May 2nd. In fact, the April 11th date is the earliest in 37 years and according to Scott Hodge, Tax Foundation President, "the biggest drop in America's tax burden for at least a century".

So you may be wondering exactly what is Tax Freedom Day? Well, Tax Freedom day is the day when Americans have finally earned enough money to pay off their total tax bill for the year. Every dollar that's officially called income by the government is counted, and every payment to the government that is officially considered a tax is counted. Taxes at all levels of government are included, whether levied by Uncle Sam or state and local governments. In 2004, Americans will work 65 days to afford their federal taxes and 36 more days to afford state and local taxes. Of course, state tax burdens vary considerably from state to state because of different state and local taxes. The heaviest tax burden falls to New Yorkers (April 28) while the yoke is easiest on Alaskans (March 26)- they should get some reprieve as a reward for the brutal winters they have to endure. Other notable states are Florida (April 8); Georgia (April 9); Texas (April 7); Kansas (April 6); Wisconsin (April 13) and South Carolina (April 1). After those dates, you are working for yourself—what a great feeling!

PepsiCo. If that name doesn't stir up fierce debate here in Atlanta then some one is not paying attention. We have gone back and forth on whether to include Pepsi stock in our portfolios since we have done so much work for Coca-Cola clients over the years. I will go no further before I make my first disclaimer which is I still prefer to drink Coke over Pepsi, although I have become somewhat more tolerant about drinking a Pepsi when presented with no other options to cure my caffeine fix. As we have continued to monitor the company over the past year we began seeing Pepsi as so much more than a beverage company, unlike Coke, which is the reason for adding the company to our portfolios. Pepsi's stable of products outside of beverages range from Frito-Lay to Quaker Oats. A look at the full roster of Pepsi products reveals a who's who of snack and beverage products, an all-star lineup if you will. Pepsi, Mountain Dew, Tropicana OJ, Doritos, Cheetos, Ruffles, Lay's, Gatorade, Aunt Jemima and my personal favorite, Cap'n Crunch are just a few of the names.

On our recent visit to Pepsi headquarters last week, we met with Jack Callahan, Sr. VP of Finance and he painted a

STOCK PROFILE PepsiCo

Current price: \$54.74 2004 Return: +17.7%



picture of a well-diversified company with great prospects for growth. One of the more interesting items we discussed is the strat-

egy Pepsi is pursuing to catch the Taiwanese up with the Americans in their per capita snack consumption. Americans currently inhale on an annual basis 44 pounds of snacks compared to less than 2 pounds for the Taiwanese. Their secret weapon aimed at increasing per capita consumption in Taiwan: Seaweed flavored Lays. Am I ever thankful that we don't have a snack eating problem that they feel compelled to cure!

Of course, many of the companies in the snack food industry have been taking a beating for the obesity in America. Whatever happened to personal responsibility?

Anyway, Pepsi was the first to eliminate trans fats from their snack products, making them much better for you. In fact, Pepsi continues to be on the cutting edge when it comes to delivering a broad range of products from very healthy to, as they call it, "fun for you" (read into that line, "not as healthy for you"). They took great offense to our mislabeling it as "junk food."

We believe Pepsi, bought at the right price, will have attractive long-term returns. It will use \$7 billion of cash over the next few years to buy back some of its stock and it just announced that it will increase its dividend by 44%. It still maintains a minimal amount of debt on its balance sheet allowing a substantial amount of the cash they generate to be returned to shareholders. That is what we call a "healthy" investment.

In our March market blast, we briefly introduced the PIMCO Commodity Real Return fund and the reason for its inclusion in the portfolios of many of our clients. Well, I wanted to expand on the operations of the fund. The commodity fund is relatively new as it was established in June 2002 by PIMCO (a company you should be quite familiar with since we use several of their bond funds). John Brynjolfsson, a star member of the PIMCO team, runs the fund.

The fund approaches investing in commodities a little differently than the typical fund as it invests in securities that tie returns to the actual swings in commodity prices. Most commodity type funds to date buy the stock of companies that deal in commodities, i.e. gold mining and other natural resource companies. By themselves, commodities can be very

MUTUAL FUND PROFILE PIMCO COMMODITY REAL RETURN

2004 Return: 14.7%

risky, but within a diversified portfolio they tend to improve the risk/reward characteristics of a portfolio. The reasoning is that they can diversify the portfolio away from some of the risks that can hit stocks and bonds. The other strategy the PIMCO fund employs is the idea of rebalancing their portfolio annually, real-locating from the strongest performers to the weaker ones. Think "buy low, sell high."

In case you are wondering, we have detailed the overall makeup of the commodity index so you can see what type of commodities can be found in the fund. Please note the fund does not actually buy vegetable oils or cocoa but merely trades contracts for those commodities. So support your portfolio and eat another hamburger, drink another cup of coffee and fill 'er up at the gas station.

DJ AIG Commodity Index Weights*	
Petroleum	21%
Natural Gas	9%
Grains	20%
Livestock	9%
Vegetable Oils	2%
Industrial Metals	19%
Precious Metals	9%
Softs (cocoa, coffee, sugar, etc)	11%
TOTAL	100%
*As of 11/21/03 (Source: AIG)	

In case any of you need some help with disciplining children or grandchildren, I found this advice in a newspaper a while back fairly helpful.

Letter to the Editor:

I recently read your column on "tough love" for grandparents of misbehaving children, whose own parents let them run wild. I have followed your advice, and enclose a picture demonstrating my technique when my grandson just won't behave while I'm babysitting. His parents (my son and his wife) have told me not to spank him, so I just take him for a ride and talk to him. He usually calms down and stops misbehaving after our little car ride together.

Signed,

"The Tough Love Grandma"



TRIVIAL PURSUIT

In keeping with the theme we will challenge your knowledge of Pepsi on this trivia question. "What was the original name of the Pepsi-Cola drink?" The first person to respond to kraus@financialdirection.com with the correct answer will be awarded a PepsiCo prize pack sure to delight.

Answer for Winter 2004. How long would a candle weighing 1,377 pounds burn? Well, would you believe, a non-engineer figured this one out and got it exactly right. The correct answer was... it would burn for 64,652 hours, or an equivalent 7 ½ years. Congratulations to Diana Treadway for the only correct answer. One should have figured it would go to a woman since a man would never have called the store up in Massachusetts and asked them. What a ingenious way to figure out the answer, and it took her probably 2 minutes whereas many of the men who answered the question had bragged how they had spent an hour developing this ingenious Excel spreadsheet using derivatives and complex algebra equations based on the draft of the building and other bizarre factors only to be off by 100,000 hours. When will men just figure out to stop and ask for directions?



200 Galleria Parkway
Suite 1950
Atlanta, Georgia 30339

Kevin Kraus, CFP, CPA
Kent Bridges, PFS, CPA
Sander Abernathy, CPA
John Bochniak, CPA

Phone: 770-563-8895
Fax: 770-563-8885

Published solely for the information and enjoyment of the clients and friends of Compass Financial Consulting



WE'RE ON THE WEB AT
WWW.FINANCIALDIRECTION.COM



Copyright 2004, Compass Financial Consulting, LLC. All Rights Reserved. The information provided in the attached commentary is not a complete analysis of every material fact for any industry, security, or investment. Opinions expressed are subject to change without notice. Statements of fact cited have been obtained from sources considered reliable. No representation, however, is made as to the completeness or accuracy of any statement or numerical data in the article. This publication may include technical or other inaccuracies or typographical errors. Compass assumes no responsibility for errors or omissions in this publication or other documents, which are referenced by or linked to this publication.

This publication is provided "as is" without warranty of any kind, either express or implied, including, but limited to, the implied warranties of merchantability, fitness for a particular purpose or non-infringement. In no event shall Compass be liable for any damages whatsoever, including without limitation, special, incidental, indirect or consequential damages of any kind, whether or not advised of the possibility of damage, and on any theory of liability, arising out of or in connection with the use of performance of information in this publication.

The publication is intended for educational purposes. The information contained in this publication is periodically updated. No statement in this publication should be construed as a recommendation to buy or sell any investment vehicle or to provide investment advice.

Performance information is historical and should not be considered representative of current conditions or predictive of future results. All securities investments fluctuate and involve risks.

Compass Financial Consulting, LLC provides discretionary investment management to its clients on a fee-only agreement.