



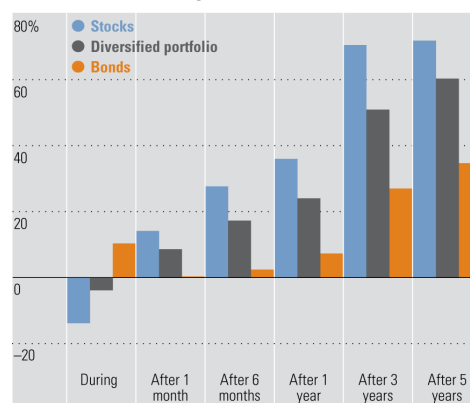
THE COMPASS CHRONICLE

After the Storm

Severe market declines can scare investors into selling at the worst possible time: when prices are at their lowest. Sticking with your investment strategy through tough times requires careful planning and discipline, but it is more likely to pay off in the long run.

The image illustrates the average performance of stocks, bonds, and a diversified portfolio during and after four U.S. recessions. During recessions, stocks performed the worst and bonds the best, while the diversified portfolio offered a middle ground. However, after the recessions and in the long run, stocks provided the highest returns, followed by the diversified portfolio; bonds did not measure up. There are two lessons here: 1) Since you cannot know for certain when the market will bottom out, if you are invested, stay invested, and 2) Diversify in order to reduce downside risk.

Performance During and After Recessions



Past performance is no guarantee of future results. This is for illustrative purposes only and not indicative of any investment. Recession data is from National Bureau of Economic Research (NBER). The average cumulative returns are calculated from the end of each of the longest four recessions in U.S. history (1929-2008). The four recession periods considered herein as defined by the NBER are as follows: Aug. '29 - Mar. '33; May '37 - June '38; Nov. '73 - Mar. '75; and July '81 - Nov. '82. The recession that began in December 2007 is still occurring and is not included in the analysis. The diversified portfolio consists of 60% stocks and 40% bonds, and is always rebalanced. Please keep in mind that diversification does not eliminate the risk of experiencing investment losses.

Source: Stocks are represented by the Standard & Poor's 500®, which is an unmanaged group of securities and considered to be representative of the stock market in general, and bonds by the 20-year U.S. government bond. Government bonds are guaranteed by the full faith and credit of the U.S. government as to the timely payment of principal and interest, while stocks are not guaranteed and have been more volatile than bonds. An investment cannot be made directly in an index. The data assumes reinvestment of income and does not account for taxes or transaction costs.

Advisor Corner



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I pride myself in offering you expert financial advice along with personalized service. Assisting you in reaching your financial goals is my business and I take that responsibility very seriously.

As an objective and independent fee-only wealth manager, my sole interest is to ensure my recommendations meet your financial goals.

COMPASS Wealth Management, LLC is a client-focused wealth management firm dedicated to providing superior advice to individuals, families, and corporate retirement plans.

Our wealth management services include investment management, retirement and gift planning, education funding, and other advisory services.



Monthly Market Commentary

The economy ended 2010 on a high note, with positive data from a range of indicators such as retail sales, auto sales, inflation, and manufacturing. Clarity on the extension of the Bush tax cuts and unemployment benefits, sharply improved markets, and new stimulus money (in the form of a 2% cut in the payroll tax) should give consumers even more cash to spend. Inflation also remained well under control--consumer prices increased by about 1% on a year-over-year basis, as they have for the past several months. However, recent jumps in food and energy prices could potentially mean that we have seen the low for year-over-year inflation growth for this cycle. The number of jobs created was disappointing, but the unemployment rate was better than expected.

Consumer confidence: The consumer confidence index posted an unexpected decline last month with 46.8% of consumers sampled saying jobs are hard to come by. This report was the worst reading since February. The survey is compiled to determine consumer attitudes on present economic conditions and future expectations.

Consumer spending: Holiday retail sales as reported by MasterCard and the International Council of Shopping Centers, revealed an increase in consumer spending. MasterCard indicated that holiday sales increased by 5.5% (measured from early November until Christmas Day) led by jewelry and apparel. Luxury goods vendors such as Saks and Nordstrom did exceptionally well while those serving the lower end of the market, like Gap and Target, showed lower rates of growth. The key issue in the months ahead is whether consumers will continue to spend post-holiday season. Consumer spending growth beyond January and February would have to come from growth in employment, hours worked, and hourly wages.

Snowstorms in the Northeast impeded sales during the critical post-Christmas shopping season. A look at sales numbers for October, November, and December in aggregate, revealed an increase in sales of about 3.5% per month on

average, a modest improvement from the 3% gains that characterized most of the rest of 2010.

December was a positive month for new U.S. light-vehicle sales. The results were the best monthly results of 2010 with an 11% increase in total sales from December 2009. The full-year sales also increased 11% with total of 11.6 million units sold.

Employment: The recent jobs report was disappointing, with employment growing by 103,000 jobs, barely above the 94,000 average of the past year. On the positive side, the unemployment rate dropped to 9.4% from 9.8%, a 19-month low.

Quarter-end insights: According to Morningstar economists, the economy could move into a stronger and more sustainable recovery mostly led by acceleration in consumer spending. This could result in a forecasted GDP growth estimated at 3.5% for 2011. The lifting of many hiring bans and salary freezes at the turn of the year combined with a great holiday season and better sentiment may drive job growth of 200,000 to 300,000 by the middle of 2011. Morningstar economists predict a continued growth in emerging markets, a stronger U.S. economy, and rising commodity prices that could drive inflation up by 2% or more.

The Morningstar equity sector team predicts a slightly more bullish 2011 on a fundamental basis, though most teams believe their stocks are close to fair value. Further, merger-and-acquisition activity remains strong across all sectors. According to Morningstar's technology team, there may be dramatic increases in business capital spending, especially for software. The industrial team expects a substantial improvement in capital spending in the years ahead.

New Year's Financial Resolutions

With the dawn of every New Year, we make resolutions to ourselves to lose weight, exercise more, and the like. But you may want to consider making resolutions that improve your financial health as well.

1. Don't overspend—Whether you are retired or not, it is important to live within your means. An increasing amount of credit card debt is a telltale sign that you need to curtail your spending.

2. Pay off high interest rate debt—Focus on the debt where you are paying the highest interest rate and where the interest cost is not deductible, such as credit cards and personal loans.

3. Refinance an adjustable with a fixed rate mortgage—Interest rates on which adjustable rate mortgages are based are near an all-time low and are expected to increase with an improvement in the economy. If you have an adjustable rate mortgage and do not plan on selling your home before your rate resets, consider refinancing to a fixed rate mortgage. When refinancing, refrain from extending the payment term or taking out cash.

4. Establish separate savings accounts—For reasonably predictable expenses it often makes sense to establish separate accounts and regularly contribute to them. For example, you may want to save for holiday gifts, vacations, and home improvements. By saving in advance of your need, you are less likely to use your credit cards or home equity to finance purchases, thereby living within your means.

5. Evaluate your investment strategy—To make your money work for you, review your investment strategy at least annually, including your portfolio's asset allocation and diversification. Remember to adjust your asset allocation to a more conservative mix as you grow older and your investment time horizon shortens. COMPASS takes care of this for clients as part of its wealth management service.

6. Increase retirement contributions—If your employer provides a 401(k), 403(b), or 457 plan and offers matching contributions, you probably want to contribute at least enough to obtain your employer's "free money." Consider using any pay increase that you receive to increase your contribution level up to the annual maximum. COMPASS works with its clients to determine how much to save.

7. Fund educational savings accounts—As with retirement, the sooner you begin the less money you will need to contribute to your children's or grandchildren's education due to the compounding of returns. Also, if you have a large estate, educational savings accounts can be an excellent estate planning tool by removing assets from your estate, but retaining control. COMPASS assists clients with recommending the best savings vehicle for their situation.

8. Keep estate planning documents current—Or, if you don't have them, obtain them. It is important that you indicate your desires in what are considered to be basic estate planning documents: a will, durable power of attorney, health care proxy/living will, and HIPAA release, which authorizes the release of your medical information. Depending on your situation, a trust may also be appropriate.

9. Review beneficiary designations—As with your estate planning documents, it is critical that you keep the beneficiary designations current on your life insurance, annuities, and retirement accounts. This is especially true if your listed beneficiary is an ex-spouse or has passed away.

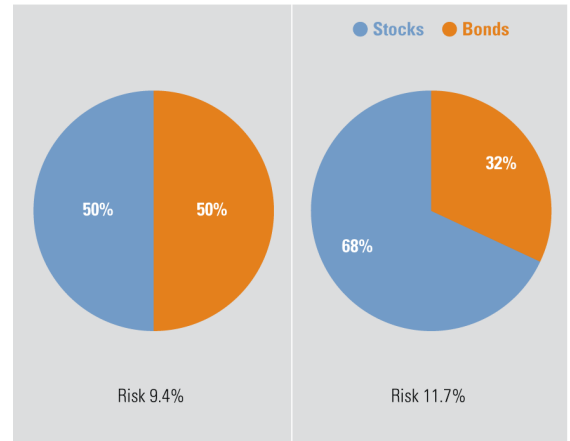
10. Assess insurance coverages—Review your various coverages (e.g., health, life, homeowner's, disability, long-term care) for applicability and adequacy. Be especially mindful that your home is adequately insured for its full replacement cost.

The Importance of Rebalancing

Over time, your asset-allocation policy can veer off track because of market ups and downs. This is illustrated quite clearly in the image below; a strong stock performance can cause a simple 50/50 portfolio mix to become unbalanced over time. After 30 years, what was once a 50% allocation to stocks now sits at 68%—quite a jump. Moreover, not only does the portfolio’s allocation change, but the portfolio’s risk also changes, rising sharply from 9.4% to 11.7%. If your needs and/or risk tolerance have not changed, your allocation shouldn’t either.

But why would anyone want to sell investments that have done great in order to purchase laggards? While rebalancing might seem odd at first, it is all about risk control. If more and more of your total portfolio winds up in one investment, you risk losing a lot should that investment stumble.

Change of Portfolio Allocation:
January 1980–December 2009



Keep in mind that an investment cannot be made directly in an index, and past performance is no guarantee of future results. This is for illustrative purposes only and not indicative of any investment. The sale of an investment for the purposes of rebalancing may be subject to taxes. Risk is measured by standard deviation. Standard deviation is a statistical measure of the extent to which returns vary from the expected returns. Government bonds are guaranteed by the full faith and credit of the United States government as to the timely payment of principal and interest. Stocks are not guaranteed and have been more volatile than bonds.

Source: Stocks—Standard & Poor’s 500®, which is an unmanaged group of securities and is considered to be representative of the stock market in general; Bonds—five-year U.S. Government Bond.

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