

COMPASS WATCH

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QUALITY IS BEAUTIFUL BLUE CHIP STOCKS LEAD THE MARKET HIGHER

Many investors have been led to believe that in order to make money investing in stocks; you must buy companies that have a great “story.” These stories are often the equivalent of putting lipstick on a pig. History is littered with companies like Global Crossing (fiber optic cable under the Atlantic Ocean?), Pets.com (the sock puppet in the commercials was cute, but who was going to buy a goldfish over the internet?), numerous solar power companies in recent years, and the list goes on.

Alternatively, we have spent the last 25 years avoiding these “story” stocks. Instead, our investment team seeks high-quality, blue chip, growth companies many short-term investors decry or simply ignore. We admit that discussing how Procter & Gamble or Johnson & Johnson grow earnings by providing soap and Tylenol to consumers is not the most exciting conversation to have at a cocktail party. When the alternative is how you lost money investing in the latest hyped technology or energy story, we find our high-quality companies suddenly become very exciting. Owning high-quality companies with strong balance sheets, experienced management teams and diverse products has proven over time to be an effective way to protect and grow wealth.

At Compass, we are definitely long-term investors (we have held one stock for almost 25 years and our historical turnover rate is approximately 10%, on average). This perspective helps avoid the short-term destructive emotions that destroy many portfolios. Moreover, our core stock portfolios continue to perform quite well over the past 1-3-5 and 10 years (ended August 31, 2013), led recently by our long-term holdings within the Healthcare and Technology sectors. More importantly, this current strong equity market has given us the opportunity to trim our winners and add to our undervalued names.

While many short-term investors pass on well-established, seasoned companies such as those Compass owns, take comfort knowing many of our companies have endured and prospered through various market cycles. We continue to be excited about their future. Perhaps more important, we believe **risk still matters**. Although for some time (recent 5-year bull market) investors have been chasing returns and stories while ignoring risk, we remember that successful long-term investing involves not only making money in the market, **but keeping it**. By owning companies that have demonstrated the ability to deliver during good times and bad, we can help tilt the odds of success in the investors’ favor.

By design, we continue to seek out the best positioned, high-quality, multinational growth companies and patiently wait to purchase them at a discount to both their true value and the market as a whole. For 25 years, applying sensible, time-tested disciplines has led us to high-quality companies which address our client needs of protecting and building their wealth. This is why we believe quality is beautiful!

For more information regarding our company, disciplines and results; please call, write, e-mail or visit our website: www.compasscap.com

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