

COMPASS WATCH

DAVID M. CARLSON

LEIGH E. NIEBUHR

MARK S. HALVERSON

CHARLES M. KELLEY

JAY M. JACKLEY

A quarterly newsletter of Compass Capital Management, Inc.

Volume 23, Number 2: Summer 2011

GLOBAL INVESTING WITH U.S. MULTINATIONALS

Astute investors today realize that fundamental changes in the global economy will create investment winners and losers. But the answer to capitalizing on this shift is more complex than simply to “buy emerging markets.” In fact, history suggests that there is not a strong correlation between GDP growth and market performance.

THE WORLD IS EVOLVING...the next 20 years

- ◆ Emerging markets will account for 60% of global GDP.
- ◆ According to the World Bank, there are now over 100 million households in the BRIC countries—Brazil, Russia, India and China with real household income over \$10,000—up four-fold from the mid-1990s.
- ◆ Emerging economies are poised to grow 4x faster than developed economies.¹

Traditional arguments for international investing rest on academic studies, not “real-life” investing. Moreover, rising correlations over the last decade have made the benefits of emerging market diversification less obvious. Investors need to consider other factors, such as where the company does business and how much is done there, not just where the company is headquartered. Winning companies and ultimately winning investments, are those that find ways to capitalize on this shifting landscape.

A sensible alternative to “just buy emerging markets” is to invest with conviction in well-established, growing, U.S. multinationals. These are businesses with diverse growth prospects, growing dividends, sustainable competitive advantages, global (respected) brands, strong corporate governance and as just witnessed in the wake of the recent global financial crisis—strong cash-generators with low (or no) leverage. You receive the benefits of the emerging market growth without the direct risks of government corruption (nationalization), currency fluctuations, shady accounting and corporate governance² and limited contract law.

Listed below are our core twenty-five companies we currently manage in client portfolios. It is interesting to note that two-thirds of our Compass core stocks receive more than 33% of their total sales outside the United States.

Compass Core Stocks Percent Foreign Sales of Total 2010 Sales³

Expeditors	77%	Ecolab	50%	C.R. Bard	31%
Accenture	64	Cisco	49	FedEx	24
Sigma-Aldrich	63	Omnicom	46	Wal-Mart	24
PG	62	Microsoft	42	ADP	19
Donaldson	60	Medtronic	41	Sherwin Williams	19
Ill. Tool Works	58	Stryker	35	Sysco Corp	11
Oracle	57	Bemis	35	CVS	<10
JNJ	52	Franklin Resources	33	Kohl's	<10
Danaher	50				

For over 22-years, our responsibility has been to manage client portfolios, applying sensible, time-tested disciplines. High-quality, U.S. multinational growth companies are still appropriate global choices for building and sustaining future wealth.

1. Organisation for Economic Co-operation and Development.

2. O'Keefe, Kate, July 12, 2011, “Moody's Raises Some 'Red Flags' in China, *The Wall Street Journal*.”

3. 2010 company annual reports.

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

*Compass Capital Management, Inc. * Baker Building, Suite 400 * 706 Second Avenue South * Minneapolis, MN 55402 * (612) 338-4051*