THE COMPASS

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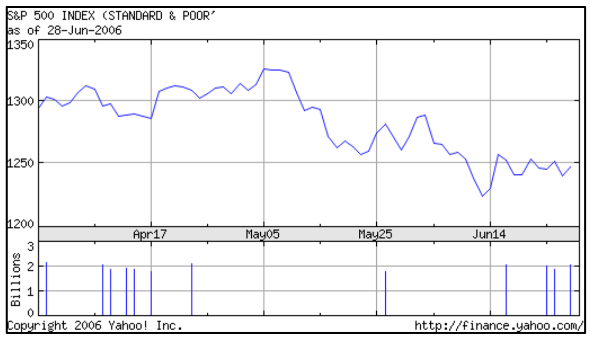
BRAND ASSET MANAGEMENT GROUP

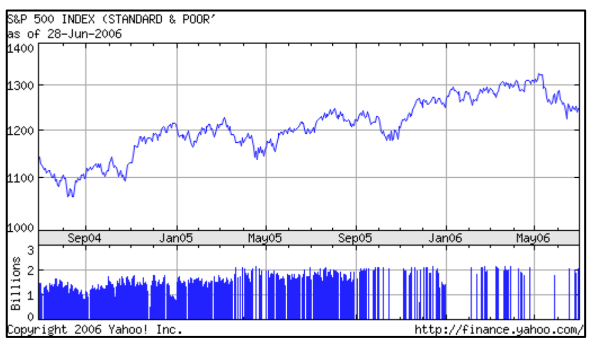
Quality Counsel Objectively Provided

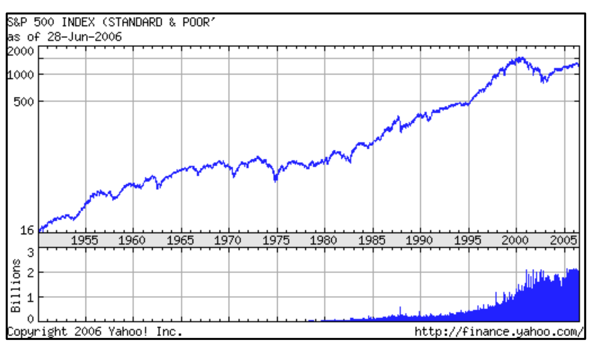
Context

Todd Brand, President

Here are three graphs, printed from Yahoo! Finance this morning (June 29th). They show "the market" over the last 3 months, 2 years and 56 years, respectively. They each point to one key fact….the market (S&P 500 Index) closed at 1246.00 yesterday (June 28th). How it arrived at 1246.00 depends upon when you started looking at the data.







The three pictures tell both the same and yet, different stories. I'll add to them two reflective questions:

Question 1: How do you feel about the current state of "the market?"

Question 2: Do the graphs give you progressively more peace as you move top to bottom?

Context in investing can make a big difference in how we weather the periodic swoons in the permanent boom that is the global market experience. By the time this newsletter gets to you, the data will have changed, hopefully for the better, potentially for the worse. But even if it hasn't, context remains key.

There are "opportunities" to feel as though "the market" isn't very good now, or, it's not doing what it's supposed to do. These opportunities are far more frequent than we'd like, typically every four years or less for a major correction. However, in context, these truly are opportunities. Market declines, both here and abroad have proven to be temporary 100% of the time historically. They have not proven to "feel" temporary so consistently though.

The opportunity, from our perspective, is two-fold. On one hand, we are provided with the chance to prove to ourselves that we really do believe in the power of diversified investing in volatile, yet growing, world markets. Winning the investment challenge often starts by winning the psychological and behavioral challenges within ourselves.

Secondly, we are able to buy securities in viable companies at "discount" values so to speak. It is our corporate predisposition to buy progressively more of the specific investments that are in decline in such times. We do this through the disciplined act of rebalancing. It is important to note that by "securities" we mean diversified funds and not single issue stocks. The latter do not have that same 100% historical recovery rate.

If prior bear markets, both large and small, have ultimately self-corrected, then effectively, we are rabid bargain hunters and not too proud to buy what others are selling at a discount. My garage sale loving wife and sister apply this same strategy most summer Saturday mornings.

Here's a fun fact with a strong message on context: The single best day's return in the US markets occurred on October 21st, 1987, just two days after "Black Monday."

Take one last look at the three graphs above, particularly, the last. We hope these thoughts help create a more secure context for the investments you hold.

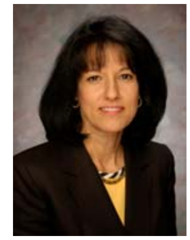
Global Diversification

Madaline Creehan, Vice-President

Our philosophy and advice to clients has always been to diversify their portfolios by implementing uncorrelated asset classes (asset classes that do not move in tandem with each other). Some of the fundamental components that play a major role in diversifying a portfolio are type (ranging from equities to fixed income), market cap (from large cap to micro cap), and region (from domestic to foreign). An efficient design of these components has the potential to reduce risk and exploit the opportunity that at least one asset class in the portfolio should perform relatively well during any given period.

Over the recent past, investing internationally has proven to be a very rewarding experience relative to domestic returns (S&P 500 Index). The United States, which historically has dominated the countries represented in the Morgan Stanley Capital International World Index, now represents less than half of that index as measured by world stock market capitalization. This gradual decrease of the US position appears to be an ongoing trend, and if the trend to globalization remains constant, the overseas markets should continue to be a significant driver of investment success.

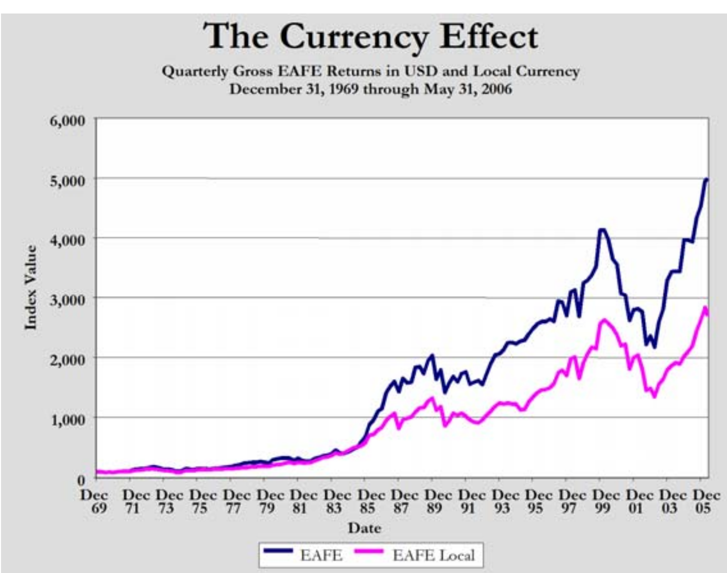
The growth of the international markets has been stimulated by certain factors that have been in play for decades, and others that are more cyclical in nature. Industries once dominated by the US have transitioned to dominant positions internationally. Examples are automobile and electronic equipment manufacturing, the metals and mining industries, and telecommunications. The US domination remains in just four of the ten sectors represented in the world index and only ten of the 24 industries.

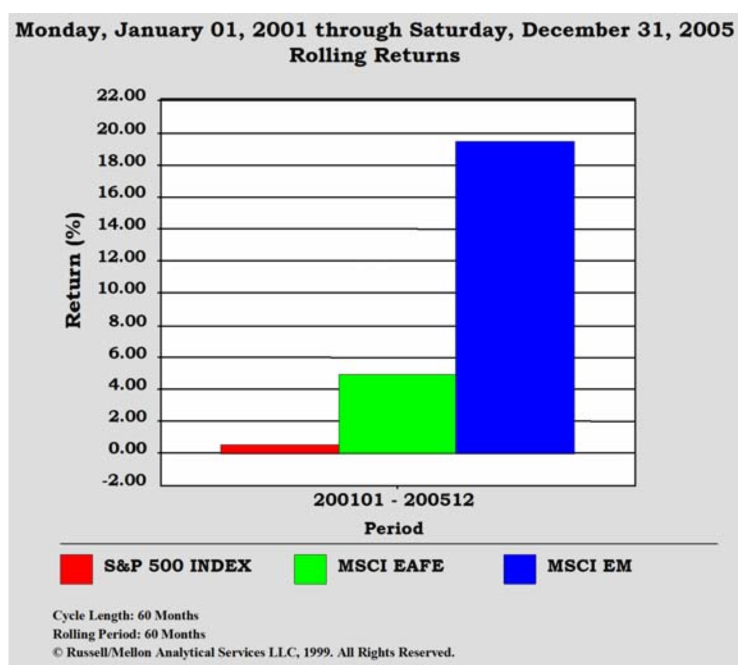


A more recent economic factor, the currency effect, specifically the weakening US dollar, has significantly contributed to the outperformance by developed and emerging markets, and may continue to be a factor due to our escalating account deficit. See the chart below.

As our clients have heard many times, risk can be reduced over time by utilizing non-correlated asset classes. Concern periodically surfaces regarding the tendency for domestic and international asset classes to have similar performance patterns (closely correlated). Consider this - despite the lack luster performance overseas in the 90's, international markets have outperformed domestics markets for prolonged periods in the past, particularly in the 70's and 80's, and have recently surged relative to domestic markets. The graph below illustrates the outperformance of the Morgan Stanley EAFE Index (representing developed international markets) and Morgan Stanley Emerging Markets Index (representing emerging markets), as compared to the S&P 500 Index (US Market) over the last five years.

As advisors, we believe that international investing plays a major role in diversifying a portfolio that is designed to endure and prosper throughout a long-term investment experience.





It's Hard Being Chairman of the Federal Reserve

Phil Daniels, Investment Consultant

Quick, without using a calculator, solve for x:

$$((7x+8)/5)^2 + 5x/2 = x^3 - (15x+11)$$

Okay, you don't really have to solve the equation, but from my perspective, that's kind of like what the Federal Reserve Chairman has to do. Mr. Bernanke is being asked to raise rates far enough and fast enough to limit the increase in inflation thereby allowing the economy to continue growing at a healthy rate. At the same time, he has to avoid going too far which could cause the economy to stall and send us into a (gasp) recession.

Admittedly, the Federal Reserve makes use of complex models that digest considerable amounts of data and numerous really smart people to use the models and interpret the output. But they are faced with the challenge of hitting a moving target. Why? Because the full impact of their previous rate increases has not yet been fully reflected in the data that's available. Therefore, they have to project how the economy will react over the next several months to actions that have already been taken before they can determine what should be done now. So what they really need to do is predict the future. I wish them luck!

Part of the problem is that current data can send mixed signals…and the market reacts to each and every release of data. In early May there was almost a euphoric atmosphere as the market continued a rally based in part on the belief that the Fed was nearing the end of their rate increases. Then, at their May meeting, the Fed indicated that some rising commodity prices, higher energy prices, and the weaker dollar could be indicative of building inflationary pressure. That little comment ignited a two week sell-off. In fact, when the minutes from the Federal Open Market Committee's May 10 meeting were released, they indicated that the Fed had considered a 50 basis point (half of a percent) increase based on worries about inflation. This revelation increases the likelihood that there are further rate increases coming. There were a few positive days in mid to late May as the market reacted to smaller than expected increases in personal income and personal consumption, both interpreted as signs that the previous rate increases were slowing the economy. Then, more recently, consumer confidence was reported at weaker levels than expected sending the Dow Jones Industrial Average down 184 points that day.

So how much further does the Federal Reserve have to increase interest rates? Will the data indicate an economic slowing which will allow the Fed to pause for a meeting or two? Or will inflationary pressures continue forcing additional increases?

As my high school calculus teacher used to say when presented with a difficult problem, "the answer is orange". Of course, he also used to play "Shoe-Fly Pie" on the yard stick guitar. If you ask nicely, I might sing a verse for you at your next review.

By the way, the answer to the equation is 6. My guess is that is also about where the Fed will end up taking the Fed Funds rate before they are done, 6%. Of course, I could be wrong.

Announcement!!!!!!

New Reporting System

We are in the midst of upgrading our reporting system with a new provider – Black Diamond Performance Reporting. We are excited about the change.

We hope to deliver our quarterly investment reports in the same timely fashion as always in July. They may be limited this time in regards to the data that we provide due to the timing of the conversion. However, we expect to provide the full suite of new and improved reports beginning with the third quarter delivery. We ask for your patience and understanding during the transition.

Please call or email if you have any questions. We would love to hear from you.

BLACK DIAMOND
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Brand Asset Management Group BLOG


Brad Howard

We have created a new type of website, called a "web log", at www.brandamgblog.com. A web log, or "blog", is defined as "a journal or newsletter that is frequently updated and intended for general public consumption. Blogs generally represent the personality of the author (personal or corporate) or the Web site."

Our "blog" is updated at least on a weekly basis. Our desire is to increase consumer awareness in the world of finance and investments, and the "blog" interface allows us to do so quickly and easily. Please visit the site and let us know what you think.

Next Symposium

Our next symposium is scheduled for **May 2007**. Please mark your calendars for this event. If you have friends or family that might be potential referrals, this would be a great opportunity for them to meet us and hear our story.

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"A multi-asset, multi-style, multi-manager investment strategy is not so much about the enhancement of investment performance, as it is about the enhancement of investment performance consistency. Investment performance consistency in turn enhances investor behavior. Investor behavior enhances wealth accumulation and preservation."

Bryan Brand
Retired Chairman
Brand Asset Management Group