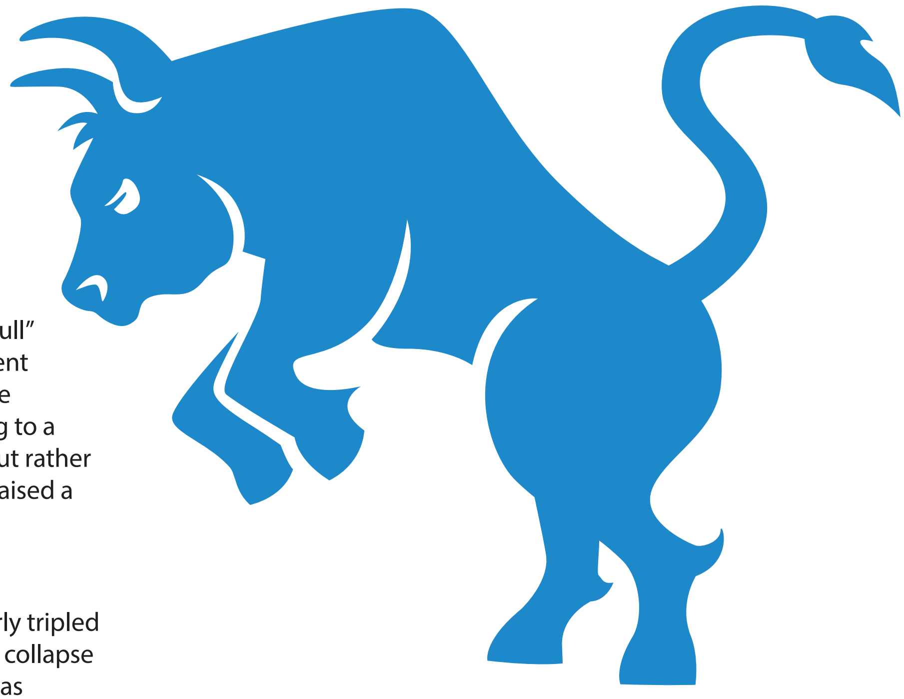
REALITY CHECK

MAINTAINING REALISTIC EXPECTATIONS AND PROPER PORTFOLIO STRUCTURE IN AN UNCERTAIN MARKET

COMPASS PORTFOLIO SERIES



As any farmer knows, the only thing certain in farming is uncertainty; the weather, pests, and the laws of supply and demand play havoc with your best-laid plans. To deal with this uncertainty, farmers diversify across crops and livestock, and put away a little something from the good years to see them through the bad. The same rules apply to investing.

If you have been following the financial world, you are aware that we are currently five years into a rising or "bull" market. While a bull may be an apt symbol for the current state of affairs we prefer to think of your portfolio as the whole farm. Your viability shouldn't depend on clinging to a charging beast with an unpredictable temperament, but rather on whether you have wisely planted a range of crops, raised a variety of livestock, and built a chicken coop for good measure.

The current market looks like this: the S&P 500 has nearly tripled since bottoming out in the wake of the global financial collapse in 2008. During the strong recovery since, the market has experienced only three significant dips or "corrections" -- each about 10% in 2010, 2011 and 2012. But it's now been more than two years without a dip and the recession is long behind us. 2013's extraordinarily bullish 30%+ return was well above normal and cannot be expected to repeat. But this does not mean a nasty correction is looming either; there have been many times in the past where markets rose for longer than five years. For example, excluding a minor dip in 1998, the S&P 500 was in bull mode from October 1990 to March 2000 -- nearly a ten-year run. To sell the farm now, or parcels of it, may mean missing out on significant returns.

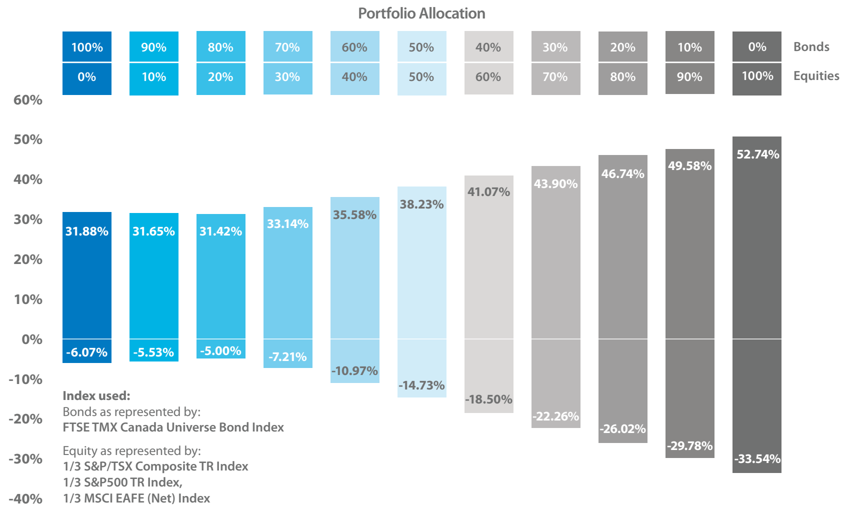
Talking about bull markets and their heady returns without also looking at risk is to miss a key part of the story. For risk and return are flip sides of the same coin. It is precisely because of this that the bull market circa 2014 has produced contrary effects. Market buoyancy has encouraged some investors to jump back in with an even greater appetite for risk. Who could blame them; sitting on the sidelines holding cash has generated virtually nothing. Others see the headlines about "Record High Stock Prices" as a sign this charging bull is about to come to a crashing halt, and are busy devising exit strategies or trying to "time the market". So the million-dollar question is, who is right? The simple answer is, it doesn't matter.

No one knows with certainty which way markets will move in the short term. Sure, this bull-run is well into its fifth year and has gone over two years without so much as a dip, but taking that at face value is an over-simplified analysis of the inherent risk. Valuations, a more relevant indicator, tell us that the market is in fact reasonably priced relative to the past. There is indeed something worthwhile underpinning these high prices. This suggests we are not on the verge of another collapse as in 2000 or 2008. That said, the good times can't go on forever either. Since we can't be certain when a dip will occur, let alone a full-blown bear market, the best strategy is to stick to a sound investment plan designed to weather the bad times, and to keep your sense of perspective during the good.

How does one mitigate risk and still expect a reasonable return in this volatile world? The Compass Portfolio Series, we use a multi-manager approach that traditionally has only available to pension funds and other large institutions and made it available to all Albertans. Our independent sub-advisors specialize in specific asset classes; they do not attempt to be all things to all investors. With different asset classes managed by different sub-advisors we are able to reduce volatility in a portfolio, much as you would diversify your crops as a mitigation strategy against hailstorms, stinkbugs and early frosts. Adding non-traditional asset classes such as real estate income trusts, commercial mortgages and private equity has also helped us create more resilient portfolios. Steering away from speculating also means we reduce risks that can result in permanent losses.

Asset Mix – The Primary Determinant of Risk & Return

Determine the right mix of assets to meet your goals 1985 to 2014 (June 30, 2014)



Source: ATBIM, Bloomberg

Sticking to your long-term strategy takes discipline. It starts by understanding that the mix of assets is the key factor to a portfolio's long-term success, while market timing and stock selection do less good than is commonly thought. We ensure the asset mix is appropriate and the portfolio is diversified and we stay the course even when the market jumps on board the hot investment of the day. All sub-advisors in the Compass Portfolio Series team share the same convictions and investment philosophy; invest in companies with solid management and unrealised value. Our team looks for businesses they believe in: good people, tangible assets, and companies that generate repeatable cash flow from proven products and services—they are not just trading pieces of paper.

While the financial industry and a farmer's field are worlds apart, the process that leads to long term success in either place is remarkably similar: mitigate risk, diversify, accept a high quota of uncertainty as a part of routine business. As author Henri Alain Fournier noted, "Life on the farm is a school of patience; you can't hurry the crops or make an ox in two days". So tap into that inner farmer, have patience and confidence in your investment plan. You are in this for the long haul and so are we. Bulls and bears will come and go, but the farm will keep steadily producing year in and year out, and that's what really counts.