



Compass Efficient Model Portfolios – Multi-Asset Class Investment Portfolios

# The NAVIGATOR



Ending  
First Quarter 2012

Note: The Compass Efficient Model Portfolios are not designed to track any particular index or benchmark over any given time frame due to their vast amount of diversification in many different markets, asset classes and downside hedging vehicles.

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## Compass Efficient Model Portfolios Overview

The Compass Efficient Model Portfolios are rules-based asset allocation investment portfolios structured to provide diversification among multiple asset classes, markets and economies around the world in an attempt to manage risk and improve returns. The Compass EMP Funds seek to capitalize on rising or declining market conditions.

## Global Asset Class Performance Overview

Index Performance: Return through March 2012 (not annualized if less than 1 year)							
	1 quarter	YTD	1 year	3 years	5 years	7 years	10 years
S&P 500	12.59%	12.59%	8.54%	23.42%	2.01%	4.71%	4.12%
Russell 2000	12.44%	12.44%	-0.18%	26.90%	2.13%	5.77%	6.45%
MSCI EAFE Index	10.98%	10.98%	-5.31%	17.68%	-3.04%	3.73%	6.16%
Barclays US Agg. Bond	0.30%	0.30%	7.71%	6.83%	6.25%	5.72%	5.80%
Barclays Int'l Treas Bond	-0.20%	-0.20%	4.02%	7.32%	6.91%	5.18%	8.54%
Dow Emerging Mkts	13.97%	13.97%	-9.04%	25.29%	3.73%	11.02%	13.15%
Dow Jones U.S. Select REIT	10.76%	10.76%	13.53%	44.48%	-0.75%	7.58%	10.36%
Barclay Equity Long/Short Index	4.79%	4.79%	-1.50%	7.04%	2.62%	4.75%	5.31%
HFN CTA/Managed Futures Ave	0.37%	0.37%	-3.64%	3.23%	6.30%	6.24%	7.57%
Barclay Commodity Traders Index	-0.33%	-0.33%	-2.85%	1.73%	5.32%	4.69%	5.61%
Citigroup 3-month T-bill	0.01%	0.01%	0.05%	0.11%	1.12%	2.00%	1.81%
Barclay Fund of Funds Index	3.57%	3.57%	-3.69%	3.84%	-1.57%	1.40%	2.80%
Barclay Hedge Fund Index	5.71%	5.71%	-1.88%	10.94%	2.86%	5.50%	6.51%

Indexes are unmanaged and investors are not able to invest directly into any index. Indexes do not incur fees and expenses (excluding Hedge Fund Indexes), which may reduce the return of your actual investment.

## Global Economy and Market Summary

### Economy

➤ For the first quarter of 2012, forecast real GDP growth in the U.S. is 2.5%. This is slightly lower than the finalized 3.0% growth rate that the U.S. economy experienced in the fourth quarter of 2011. The situation in Europe remains much bleaker. The Euro-zone economy is expected to contract -0.3% in the first quarter of 2012 after growing 0.7% in the fourth quarter of 2011.

- Looking ahead for the U.S., consensus among forecasters is for consistent growth that is weaker than historical norms during periods of economic recovery. Most analysts see U.S. real GDP growth in the 2-2.5% range for the next several quarters.



- In regards to the situation in Europe, there is a lot of disagreement about the sustainability of current debt relief programs and how that will impact economic growth there going forward. There is more consensus over the short-term into 2012 of economic contraction in the Euro-zone of -0.4%.
- Despite a softening in emerging market growth rates, their numbers remain comparatively robust. China's economy expanded at an 8.1% annual rate in the first quarter. Other areas of stronger growth included India's economy at a 6.1% rate and Latin America grew at a 3.2% rate. Any further deterioration in these GDP growth rates could trigger monetary policy easing in many of these economies, providing a support for continued emerging market growth into the future.

#### U.S. Housing

- New home sales faltered slightly during the first quarter of 2012, down -4.0% from the fourth quarter. However, they are still up 10.3% from year-ago levels despite their recent downtick.
- Existing home sales in the U.S. continue to show modest improvement, up 5.0% from one year-ago levels.
- The median existing-home price for all housing types was \$163,800 in March of 2012, up 1.0% from the previous quarter and up 2.5% from a year ago.

#### Currency

- The U.S. Dollar gave up a lot of the gains it experienced during the latter half of 2011 in the first quarter of 2012. As fears of the European debt crisis were temporarily relieved and signs of economic growth began to emerge in the U.S., safe-haven currencies like the U.S. Dollar lost some of their appeal to investors.
- Most of the G7 currencies were up broadly against the U.S. Dollar with the New Zealand Dollar gaining the most ground, up 5.3%.
- The one outlier was the Japanese Yen, declining more than 7% against the U.S. Dollar during the first quarter. This is due mostly to the Yen's status as a safe-haven currency more than anything else.
- The Euro currency did manage to gain ground on the U.S. Dollar in the first quarter, advancing almost 3%. Despite this recent gain, consensus forecasts are for a lower Euro going forward as economic data in Europe continues to worsen.
- A potential downside risk to the U.S. Dollar lies in the Federal Reserve going back to another round of quantitative easing in the event of deteriorating economic fundamentals or renewed market panics relating to the European debt crisis.

#### Debt

- Loose monetary policy around the world has remained a major support for global treasury markets. As the U.S. economy appears to have gained some footing, markets have become intensely focused on whether or not the Federal Reserve will engage in additional monetary easing policies.
- Despite the most recent deal on the restructuring of Greece's debt problems, several leading economic indicators in Europe have deteriorated further. This has led to big selloffs in the debt of several of the other Euro-zone "problem countries," particularly Spain and Italy.
- As the problems that continue to plague Greece's budget situation appear to be infecting other larger and more centrally important Euro-zone economies, some analysts have increasingly voiced the idea that some form of Euro-zone breakup is the only viable solution to the current debt problems of the Euro-zone.
- U.S. Treasuries continue to receive a safe-haven bid in connection to the plethora of problems in Europe. Additionally, weaker-than-expected economic data recently in China could trigger fears of a global slowdown, further increasing demand for U.S. Treasuries, driving down their yields.

#### Unemployment

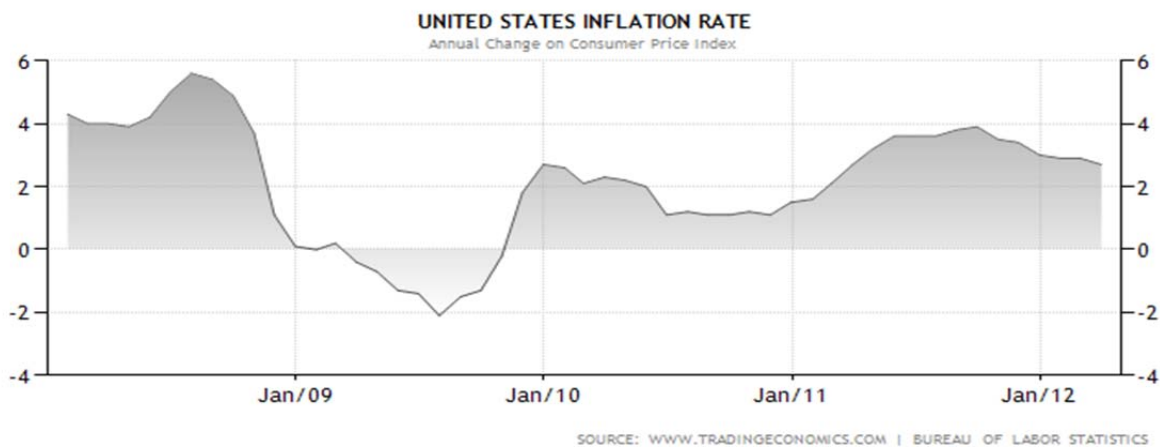
- The unemployment rate in the United States was reported at 8.3% as of March 2012, and has since inched down to 8.2% prior to this publication. Total nonfarm payrolls continue to post gains, but at historically weak levels. The most recent jobs report for the month of March was an unexpected disappointment coming in at a net addition of 120,000 jobs, the weakest number since the report for October of 2011.

- The U.S. Labor Department's U-6 measure of unemployment, which includes discouraged workers and those working part-time but seeking full-time work, was at 14.9% in March and remains well above levels that are consistent with economic recovery. Some economists prefer this measure and call it the "real" unemployment rate because it includes those who have given up on finding a job and those who want full-time jobs but cannot find them.
- The official March unemployment rate for the Euro-zone nations stood at 10.8%, registering the highest level of unemployment on record for data tracking the combined Euro-zone unemployment. When looking inside the Euro-zone, the disparities in the job markets of different member nations is dramatic. Germany, long the region's most stable economy, registered a 5.7% unemployment rate in December compared to unemployment rates of 21.0% and 23.6% in Greece and Spain, respectively.



### Inflation and Commodities

- The annual inflation rate in the United States declined in March ending at 2.7% year over year as of March 31, 2012 (See the U.S. Inflation Rate chart below). The inflation rate refers to a general rise in prices measured against a standard level of purchasing power. The average inflation rate in the U.S. since 1914 has been 3.38%.



- Commodity prices were broadly stronger during the first quarter of 2012. Energy and precious metals were among the top gainers, including gasoline prices up nearly 20% and platinum prices up almost 18%. Natural gas prices suffered during the first quarter, dropping more than 32%.
- The high degree of correlation in commodity markets has dissipated somewhat over the first quarter of 2012. Energy prices and precious metals have moved in near-lockstep with the gains in equity markets, but other commodity sectors such as agriculture and industrial metals have not kept pace.
- The recent weak economic data coming out of China has big implications for commodity prices going forward. Any signs of a global economic slowdown can lead to lower commodity prices. However, renewed monetary easing from central banks around the world in this scenario could limit the downside of commodity prices.

### REITs (Real Estate Investment Trusts)

- U.S. REITs were among the top performing alternative asset classes in the first quarter of 2012. Better than expected employment data and improving fundamentals in the commercial real estate sector provided significant sources of strength for U.S. REITs.
- Economically sensitive sectors of the REIT universe such as industrials, regional malls, and shopping centers were among the strongest performing REIT sectors. Property sectors of a more defensive nature such as health care and self-storage were relative laggards.

- Low interest rates remain a major support for REITs both in terms of funding costs and also as a stimulator of future economic growth. Potential headwinds for REITs include any deterioration in the European debt situation as well as rising interest rates.

Note: Strong asset class diversification and a long-term objective are highly recommended. Because of the diversification of multiple low correlating asset classes and multiple markets, the Compass Efficient Model Portfolios performance is not expected to completely track with any particular broad stock or bond market index over any given time frame.

### **Higher and Lower Performing Asset Classes**

(Represented by the market performance listed above. The in-house strategies held in the Compass EMP Funds or Separately Managed Accounts are highly correlated to the market indices listed on page 1.)

The short-term performance below indicates the asset classes that were the higher and lower performers over the last 12 months. Depending on the asset allocation model, the Compass Efficient Model Portfolios may invest in equities, fixed income, ETFs or liquid futures strategies that represent the following asset classes. "L/S" represents Long/Short hedging strategies.

<b>Last Quarter</b>		<b>1 year</b>	
<b>Higher Performing Asset Classes</b>	<b>Lower Performing Asset Classes</b>	<b>Higher Performing Asset Classes</b>	<b>Lower Performing Asset Classes</b>
Emerging Market Equity	Commodity Hedge L/S	Real Estate (REIT)	Emerging Market Equity
U.S. Large Cap Equity	International Treasury Bond	U.S. Large Cap Equity	International Equity
U.S. Small Cap Equity	Managed Futures	U.S. Treasury Bond	Managed Futures
International Equity	U.S. Treasury Bond	International Treasury Bond	Commodity Hedge L/S

Note: U.S. Treasury Bonds and International Treasury Bonds consist of intermediate term with an average duration of 3 to 7 years. Each of these asset classes has its own set of investment characteristics and risks and investors should consider these risks carefully prior to making any investments.

### **Recent Changes to the Portfolios**

#### ***Compass EMP Funds – Compass EMP Multi-Asset Balanced Fund / Compass EMP Multi-Asset Growth Fund / Compass EMP Alternative Strategies Fund***

- The first quarter of 2012 saw descent rebounds in equity asset classes. This caused all of the positions in the Compass EMP hedging methodology to flip from cash and short positions, to long positions.
- The Equity L/S asset class converted from being short in every equity market, to long in every equity market, except the Australian SPI 200 Index. Similar changes occurred to the Commodity L/S portfolio, which increased its long positions from 4 to 10 and its short positions were reduced from 16 to 10 over the quarter. The Managed Futures portfolio also increased its long exposure across all markets it tracks, going from 12 long positions to 22 long positions during the quarter.
- The one asset class that remained unchanged for the quarter in terms of long/short analysis was the Global Bond Hedge portfolio, which remains long in every market it tracks.
- Several strategic decisions regarding asset allocation of the three funds were made during the fourth quarter. First, International REITs were removed as an asset class due to the large impact of currency movements on the foreign-denominated International REIT holdings. Additionally, the Global Currency L/S asset class was removed as a stand-alone asset class based on the heavy amount of government intervention in many of the currency markets. Currency positions will remain in the Managed Futures portfolio to help keep the Managed Futures strategy well diversified.
- In place of those subtractions, it was decided to expand the Equity L/S asset class into a U.S. Equity L/S asset class and a separate International Equity L/S asset class as well as increasing the size of the U.S. REIT asset class. Several new positions were added to the new Equity L/S asset classes to accommodate more unique markets including futures on the Dow Jones Industrial Average, Russell 2000, and the MSCI Emerging Markets Index.

#### ***Compass EMP Separately Managed Accounts (SMA) – May not apply to all platforms***

- No changes at this time

**Remember:** Obstacles are those frightful things you see when you fail to focus on your long-term goals.

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*Investments in mutual funds involve risks. Past performance does not guarantee future results. Investment return and principal value will fluctuate with changing market conditions so that when redeemed shares may be worth more or less than their original cost. No investment strategy, such as asset allocation, can guarantee a profit or protect against loss in periods of declining values. Please note that individual situations can vary.*

*Investing in real estate/REITs involves special risks such as potential liquidity and devaluation based on adverse economic changes. Real estate/REITs may not be suitable for all investors.*

*International investing involves special risks not present with U.S. investments due to factors such as increased volatility, currency fluctuation, and differences in auditing and other financial standards. These risks can be accentuated in emerging markets.*

*Alternative investments may have additional risks that can exceed those of traditional investments such as risk associated with leveraging the investment, potential adverse market forces, regulatory changes, and potential liquidity.*

*The individual ETFs will not be able to replicate exactly the performance of the indices or sector they track. The Funds may have liquidity risk in that the Advisor may not be able to acquire or sell underlying securities held by the Funds at a price that is acceptable to the Advisor. Investors in a Fund will indirectly bear fees and expenses charged by the underlying investment companies in which the Fund invests in addition to the Fund's direct fees and expenses.*

*Long- Buying a security such as a stock, commodity or currency, with the expectation that the asset will rise in value.*

*Short- The sale of a borrowed security, commodity or currency with the expectation that the asset will fall in value.*

*Hedge- Making an investment to reduce the risk of adverse price movements in an asset. Normally, a hedge consists of taking an offsetting position in a related security, such as a futures contract.*

***Other Sources: Zephyr, Bloomberg; Trading Economics.com, Bureau of Labor Statistics.***

First page index returns are calculated on a total return basis.

Indexes are unmanaged, statistical composites and their returns do not include payment of any sales charges or fees an investor would pay to purchase the securities they represent (excluding Hedge Fund Indexes). Such costs would lower performance. It is not possible to invest directly in an index.

The S&P 500 Index is a market-cap weighted index composed of the common stocks of 500 leading companies

The Russell 2000 Index is a market-cap weighted index composed of 2000 U.S. small-cap common stocks.

The MSCI World Stock Index is a free float-adjusted market capitalization-weighted index that is designed to measure the equity market performance of the developed markets.

The Barclays US Aggregate bond Index is a market capitalization-weighted index representing most U.S. traded investment grade bonds.

The Barclays Int'l Treasury Bond Index (Barclays Capital Global Treasury Ex-US Index) includes government bonds issued by investment-grade countries outside the United States, in local currencies, that have a remaining maturity of one year or more and are rated investment grade.

Dow Emerging Markets Index covers approximately 95% of the market capitalization of the represented countries. The industry indexes are created according to definitions used by Dow Jones Indexes' proprietary classification system and are maintained at both the country and regional level. More-granular sector indexes are also available. The size-segment indexes (large-cap, mid-cap and small-cap) are defined by cumulative market capitalizations. They are maintained at both the country and regional level.

Dow Jones U.S. Select REIT (DWRTF) index is designed to serve as proxies for direct real estate investment, in part by excluding companies whose performance may be driven by factors other than the value of real estate. It represents equity real estate investment trusts (REITs) and real estate operating companies (REOCs) traded in the U.S. The index is a subset of the Dow Jones Americas Select RESISM and includes only REITs and REIT-like securities.

Barclay Equity Long/Short Index This directional strategy involves equity-oriented investing on both the long and short sides of the market. The objective is not to be market neutral. Managers have the ability to shift from value to growth, from small to medium to large capitalization stocks, and from a net long position to a net short position. Managers may use futures and options to hedge. The focus may be regional or sector specific.

HFN CTA/Managed Futures Ave tracks performance and assets of 629 fund products with a primary strategy that involves trading a variety of natural resource, energy, financial or other types of commodities primarily through derivative markets.

Barclay Commodity Traders Index (The Barclay CTA Index) is a leading industry benchmark of representative performance of commodity trading advisors. There are currently 602 programs included in the calculation of the Barclay CTA Index for the year 2012, which is unweighted and rebalanced at the beginning of each year.

Citigroup 3-month T-bill This index measures monthly return equivalents of yield averages that are not marked to market. The Three-Month Treasury Bill Indexes consist of the last three three-month Treasury bill issues.

The Barclay Hedge Fund of Fund Index is a measure of the average return of all hedge funds in the Barclay database. The index is simply the arithmetic average of the net returns of all the hedge funds that have reported in that period.

The Barclay Hedge Fund Index is a measure of the average return of all Fund of Funds (FoFs) hedge funds in the Barclay database. The index is simply the arithmetic average of the net returns of all the FoFs that have reported in that period.

Australian SPI 200 Index –(ASX SPI 200 Index) is a market-cap index that tracks Australia's top 200 companies.

*Please consider the Fund's investment objectives, risks, and charges carefully before investing. This and other important information about the Compass EMP Funds can be found in the Fund's current prospectus, which may be obtained by calling your Financial Advisor or shareholder services at 1-888-944-4367. Please read the prospectus carefully before investing. Shares of the Compass EMP Funds are distributed by Northern Lights Distributors, LLC, member FINRA.*