CAIRN INVESTMENT GROUP

Newsletter and Quarterly Update April 2008

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Important Reminders:

- There's still time to make a 2007 IRA contribution! The IRS allows last year contributions until April 15th.

CAIRN INVESTMENT GROUP

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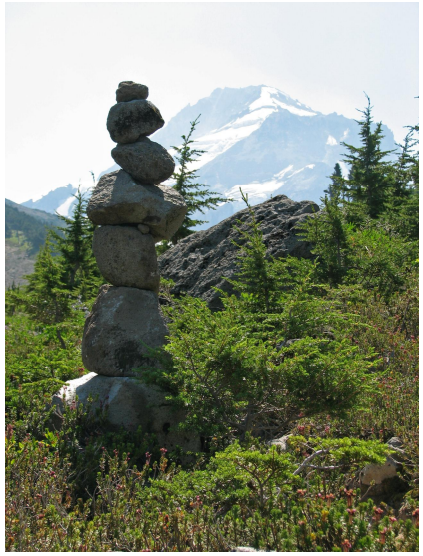
Greetings! It has been a chilly 1st quarter of 2008, setting records for cold days and late snow in Portland as well as records of all types on Wall Street. High oil prices, dropping home prices, slower retail sales and an economic stimulus package on the way. As investors we are beginning to feel like a kid on the playground pinned down by a big economic bully. Uncle! We finally holler, but the bully doesn't heed our plea.

Economic contractions are never fun to live through, although they do generally give way to a future expansion and profitable investing. The overseas situation is quite complex. The Middle East tensions are severe and give no hint of easing. Russia is behaving differently, China and India are showing mixed economic signs and Pakistan's future since Benazir Bhutto's assassination is cloudy.



This Cairn was found hiding beneath Mt Hood.

Investors are clearly shaken. The signs that we are in a recession are numerous. Inflation is easy to see in many areas where we spend money, yet interest rates continue to be modest. As the worries pile up, I stay focused on the historical pattern, that market rallies often get underway during periods of intense investor despair.

So while Bernanke, Spitzer and gold prices have been front and center entertaining Wall Street, we have been hunkered down working behind the scenes, living our legend, advancing along the trail from cairn to cairn, ready for a brighter day by having a larger amount of cash and short term securities available to us for future investments.

A regular question recently has been, "Jim, what can we do about lower interest rates and the fact that my portfolio is producing less income?" Welcome to the fixed income dilemma and the "reinvesting at a lower interest rate risk". Normally lower interest rates would be paired with lower inflation, but that is not the case now as we flirt with a period of "stagflation".

This is a time to be very cautious about the true credit quality of a particular enterprise, whether it is a common stock dividend, a corporate bond, a municipal bond or even a big old New York investment bank. A wise and very seasoned investor cautioned me many years ago, "don't stretch for yield, it will snap back and hurt you".

The yield curve from short maturities to long has steepened, but only recently, and only in the short end. The state and federal tax free yields on municipals continue to be a quality investment for high tax bracket investors.

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Last quarter I wrote about the relative value of the market as determined by the Value Line Investment Survey. At the end of the first quarter there would appear to be even more value, in that the average price/earning ratio is 15.6 and the average dividend yield is 2.1%.

Results have been wide ranging for so many companies this last quarter. Greenbrier has attracted the attention of heavy weight investor Carl Icahn. Starbucks has been in the news almost daily as they work to ñRe-Brewò themselves. Bank of the Cascades has been un-loved as the Central Oregon home builders slow to a crawl. Gilead Science hits all time highs as Merck & Schering Plough wonder what happened to their science. Strong dividends have regained their popularity.

Our internal office systems are humming along with a couple of improvements. We have a better, faster quote system that coordinates more easily with our ordering systems of stops, limits and the like. Plus, we have learned that contrary to last quarterôs letter, the ñnewò best way for you to make out a check for deposit to your account, is to make it payable to yourself! I know it seems too obvious, but it really works; even for retirement accounts. Writing your account number on the memo line of the check or a note describing any specific deposit instructions is always helpful.

There is still time to fund most types of retirement accounts prior to April 15th for 2007 contributions.

Some folks have asked us, ñWhat happens if your building is damaged by fire? flood? earthquake?ò An important piece of our business construction is a Business Continuity Plan, or BCP. A plan that is in place that allows us to re-group in another location with computers, investor contact information and account details. If we have a disaster and are unable to access our building, all of our staff knows where to meet and

Sean Ellen Jim Lara Tim

how to communicate. We would then hopefully be able to communicate with you through email, phone, cell phone, and possibly fax. Plan for the worst and hope for the best.

Thank you and may 2008 heat up for all of us!

Warm Regards,

Jim Parr, Principal

P.S. State Parks Day is June 7th.