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- Annual Returns by Decade
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- Tax Documents Arriving Soon
- IRA Roth Conversions

Important Reminder:**Tax Forms & Dates:**

- Dec. 31 Schwab Institutional Statements
- Dec. 31 Gain / Loss Reports
- Feb. 15 1099s
- April 15 IRA Contribution Deadline

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Greetings from the Northwest

It appears that the most often heard toast at New Year celebrations far and wide has been "Good riddance to '09, and, while we are at it, Goodbye 2000s."

The news services are full of reviews reminding us of all that has been disappointing and sometimes wrong and illegal in the recent past. One report in the Wall Street Journal last week summed it up well: "Investors hope that '10s beat the '00s. Since end of 1999, U.S. stock performance has been the all time clunker; even the 1930s beat it." The accompanying graph illustrated the past 18 decades, 180 years, and all decades were positive except the 1930s and the 2000s. Needless to say, I believe the future is getting brighter. Additionally, I wish never to experience the past volatility again.

I've heard many questions revolving around the issue of how to avoid the bubble / burst cycle as we investors go forward. Building a bubble of interest in a company or an economic sector is what markets of all kinds, all around the world, do. The bursting is the result of investors fleeing the company or economic sector in droves.

**Dubious Distinction**

This decade is on pace to be the worst period ever for owning stocks. Below are the annual returns, by decade, for a broad measure of stock-ownership. Even periods during the Civil War and World War I fared better.



The lows of March 2009 were no fun. I believe that Warren Buffet referred to it as "looking into the abyss." The stock market has climbed back vigorously since then, and has managed to close the year with strong broad gains. At the end of '08 we harvested substantial losses (don't forget to look back for Loss Carry Forwards on your tax returns) for most taxable accounts as the recession, banking disaster, and growing credit crisis erased the gains and confidence of most investors last year. The Dow Jones Industrial Average had fallen from 14000 in October 2007 to 8500 in December 2008, and then to 6500 in March 2009. A 54% decline in 18 months. "The Great Panic."

Now, in comparison to what the markets looked like a year ago, the outlook is less somber. We are no longer in recession. The economy has returned to growth with the GDP increasing in the end of 2009. Banks are continuing to be very cautious and we often hear that they "aren't lending." Maybe that's a good thing, since loose lending practices seem to have been at the heart of our just ending "Great Panic."



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Unemployment nationally is easing a bit, while in Oregon we are still suffering with a 12%-plus rate. In my last letter I projected that Oregon could top out at a 15% unemployment rate. We may still, but I'm hearing from our good friends at Action Employment that temporary hires are rising. This is often a sign of economic recovery. Consumer spending and home foreclosures are next in line for topics to worry about. No jobs, no spending, no homes.

This is the classic "wall of worry" that I also wrote about last quarter. Businesses have right sized themselves and are doing better. They are beginning to show profits again. Check your attached portfolio statements; they are showing gains again, too.

Tim just read this letter over my shoulder and asked if I'm really all that negative. No, I'm not, and I should be clear that I think this is an opportunity for investors. An opportunity for good stock picking and a time to own tangible assets that can outpace taxes, inflation, and protect the buying power of our dollars.

Economic expansion is growing globally. We have made adjustments to portfolios accordingly, and will continue to do so. The banking sector that brought us many components of the "Great Panic" is just now paying off TARP money if they can. In addition, they are whispering about future increases in dividend distributions.

The worst of the banking experiences for us have been in our own regional Northwest banks. The future of some of these banks is unclear, but I'm convinced that the leaders of these regional banks, the same people who are leaders in their communities, are working as hard as possible to meet the FDIC capitalization ratios that will let them bank another day. I continue to watch the failed bank list posting each Friday.

Other items hanging on our wall of worry are the growing Federal deficits, future rising interest rates, and inflation. The economy is shaky, and 2010 will be a year of transition to modest growth. Some are concerned about a double dip of the economy. But I don't think we will experience a second dip, based on early signs of strengthening in real estate and unemployment.

As we roll into 2010, there are several important dates to keep in mind for the tax season. The first round of 1099s will be out by February 15, and any further corrected 1099s will be out as soon as possible. April 15 is the deadline for contributions to Traditional and or Roth IRAs. There is an opportunity for some investors to convert their IRAs into a Roth IRAs in 2010. The decision can be a bit tricky, and we would be pleased to have a conversation with any one who would like to explore the possibility of doing a conversion.



Cairn Employees sponsor 2 families for Christmas through The Salvation Army



Ellen & Jeff Tennant
Wrapping for the 3rd Year

2009 Gain / Loss Reports will be created by our custodian this year, as they have in the past. These will be mailed to you, or you'll receive an email alert, depending on how you normally receive the monthly statements and confirms. Please retain these Gain / Loss Reports, as they are very helpful for your tax return preparations. For those receiving email alerts, please look closely at the email so as not to delete your notification. Once notified, you can access your reports via the web and print your Gain /Loss summaries for your tax preparer.

Ellen is continuing to round out as her due date in March approaches. We are gearing up for the time she will be out on maternity leave. Sean Ogle has left the Cairn Trail and moved to Thailand. A young man in pursuit of his "Bucket List" while he is not old.

Life is good for us at Cairn. We have succeeded in opening a new money management firm during a very challenging time. We've achieved this because of the support of our investors. Thank you.

Warm Regards,
Jim Parr, Principal

P.S. Feb. 27 & 28 is Cove Palisades Eagle Watch 2010. Live birds of prey, speakers, field viewing and more at Cove Palisades State Park.