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Greetings From The Northwest.

It has been an unusually cold and wet period in these here parts of late. Plenty of late season snow to help fill the reservoirs and extend the studded snow tire season. The moss, which is everywhere, is an extraordinary bright green, helping show off the white tips of the tender trillium blossoms. Spring in the northwest, where many people prove that the hope for sun springs eternal, right along with their hopes for investment success.

The stock market has also had a lot of spring in it, with the Dow Jones Industrial Average (DJIA) moving up nearly a thousand points from the end of 2011 through March 2012. Still, the DJIA is nearly 1000 points below the October 9, 2007 record high of 14,164. As I've said before, I hope none of us experience the economic violence of the past four years again.

As I have written in past letters, we as investors have had a pretty good go of it recently. Companies have right sized themselves and earnings growth has been materializing. The U.S. economy in general won't start zipping ahead until unemployment shrinks some more and home prices stabilize. The pain and suffering of stressed and upside-down homeowners will continue until the excess number of available housing units shrinks and housing real estate prices firm. The Kiplinger Letter points out that, in 38 states, home prices are now above the early 2011 lows, but the national average hasn't yet hit bottom. Five states appear to be the biggest drag on national prices. AZ, CA, FL, MI, and NV, a handful that suffered



A Spot Well Marked in Hawaii

Photo by B. Oliver

the greatest declines from peak prices, are now dealing with 46% of all foreclosures in the country.

As always, our "wall of worry" has a few worries hanging on it beyond housing and unemployment, namely energy availability and cost. One of the largest cost components to the global economy is energy. Oil, in particular, is being a bit bothersome; I believe any pricing of spot or future oil prices above \$100 a barrel will slow economic expansion. I recently read a report that points out that total U.S. liquid fuel consumption is expected to decrease by approximately 60,000 barrels per day, due to higher prices at the pump, and yet total energy consumption including natural gas and coal will increase roughly 3.1% in 2012. Overall, I can see an upturn in global petroleum demand into 2013, driven by increased global economic activity and population growth. I believe the fastest energy consump-

tion growth is going to come from developing countries whose living standards are rising.

Despite its sluggish pace, the U.S. economic recovery is now almost three years old. We see substantial pent-up consumer demand in key cyclical areas, like autos and appliances. With “easy” money from the Federal Reserve, and good earnings from companies, we should continue to have growth in the quarters and years ahead. Job growth and the always uncertain political arena remain a key area of concern. Pleasingly, the private sector had added more than three million jobs so far during the recovery.

For investors of a “certain age” nearing retirement, the subject of market volatility is of significance. How do you implement a retirement income plan that will provide a lifetime cash flow and keep you ahead of taxation and inflation? The solution is to create a portfolio of stocks and bonds that are designed to fit your time frame and projected income levels. We as investors must also have the emotional capacity, or Warren Buffet “guts,” to withstand challenging investment markets. I fully believe that long-term fundamentals will prevail over time.

If you would like to update your “Cairn Investor Profile,” please give us a call or email.

As an interesting aside, Tim has been asked to serve as Chairman of the Greater Portland Compliance Association, which serves as a resource for all SEC Registered Investment Advisors in the region. One of the common issues (but not compliance oriented) that these small businesses share is the increasing cost of medical insurance. I see a growing trend to have small groups of similar businesses assemble, or associate together, to create insurance pools of employees. No matter how the Supreme Court rules on President Obama’s broad Health Care Reform Law, sweeping changes in health care are coming.



Crew Cairn Staying Out Of The Rain

Photo by S. Cridland

In closing, I laughed out loud during a recent meeting with a pair of our investors, as one sputtered, “You’re always living in the past,” to which the answer flew back: “It’s a lot cheaper.”

Here’s to the future.

Happy Trails,

Jim Parr, Principal
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