

Inside This Edition:

- **Market Commentary**
- **Industry Expansion**
- **Portfolio Changes**
- **Cairn Update**
- **Your Household Summary**
- **Individual Account Reports**

Important Reminders:

- **Annual Privacy Notice Enclosed**
- **August 2 Scheduled Building Maintenance Limited Phone and Email Communication After Market Close**

121 SW Morrison Street
Suite 1060
Portland, Oregon 97204
Phone: 503.241.4901
Fax: 503.241.5699
E-mail: info@cairninvestment.com

Greetings from the Northwest.

We've been gripped in a heat wave that has brought drought and wild fires to the region. For the wedding of a good friend's son, I recently had the opportunity to travel to Wenatchee which is the self-proclaimed "Apple Capital." Such a nice reason to get out of the office. It was an experience because, not only are these recent graduates wonderful, outstanding, young adults, but it also gave me a chance to explore a little bit of the Northwest that I often zip over on icy-cold dark nights headed skiing, but rarely enjoy in the warmth of summer.

For the folks that are unfamiliar with the Northwest: if you leave Portland and head to Wenatchee, Washington, it's generally a freeway trip up the Columbia River Gorge bending north into Washington until you've covered about 300 miles of dramatic, big, scenery. But, no, that was not the route for me. This time my route included meandering along the Klickitat River off of the Columbia River, a length of the Yakima River, and a portion of the Wenatchee River. How absolutely stunning...tons of recreation, tons of beauty, and my gosh, what else? Lots of growing industry.

Wenatchee is a busy city of about 32,000 people stretching along the banks of the Columbia River at the confluence of the Wenatchee River. Probably best known for its agriculture, cherries and apples, they have not turned their backs on all kinds of other industries, including tourism. Like Portland's downtown, East and West Wenatchee is connected by bridges crossing the Columbia River, and the Apple Capital Loop Trail that can be hiked, biked, roller-bladed, or seen on horse back. I think I must have misread the sign or brochure, because when I started on my Saturday morning before breakfast, "let's hike around the loop," I thought it was 6 or 7 miles. No, it was 11. And I added in a couple extra lengths to see the new Pybus Public Market and various other businesses to complete a nice 13 miles early on Saturday, before the heat of the day. The loop trail is an example of what so many communities are doing to inspire



Wind Turbines in Eastern Washington

Wikimedia Commons

tourism in the more historic town centers.

The Columbia River is awesome, not only for the water, and hydropower, but also the grain, the wind turbines, the transportation systems, the rail systems, the highway systems. It is absolutely awe inspiring when you realize all of the complexity and inter-relatedness of the businesses in the vast Columbia basin.

The economy of the Northwest continues to chug along. Maybe a little slower than many people would wish, but it is moving, and people are adapting to new ideas and new activities. Forest practices have been changing in the Northwest so a lot of folks are doing things that they never thought they would do before. One of those growth areas has been grapes and wine-making, with acres and acres of new grapes under cultivation. Advances in power generation from solar to wind are in use all over. It's remarkable to see.

As I was meandering along the edges of these beautiful rivers, reflecting on the changes in scenery, the changes in climate, the complexities of the forested hills thinning out to arid low lands, fish, birds, and all of the things that are growing in that

area, it reminded me that the economy of the Apple Capital is just as complex. The changes that have happened to us in our recent years as investors have also been complex. These overlapping systems, whether they're natural or economic are tough to balance, and so are the unintended consequences of all of the things we do within these landscapes.

What was once a dusty ridgeline, now is festooned with multiple electricity generating wind powered turbines. What were once marginal, stony, hill-sides are now thriving agricultural areas with high production vineyards producing record results. What was once a dusty, unused warehouse building along a track siding is now a full-fledged public market with permanent vendors, weekend farm stands, and lots of vitality. Everywhere I looked I saw growth. I saw economic expansion, and people taking advantage of opportunities to develop a business, or expand a business, in ways that a few years ago would have been unknowable.

One of the areas that has changed dramatically for the Northwest is the aluminum smelting business. The Columbia River Gorge, with its abundant hydroelectric power, has had numerous aluminum smelters along its shores. Those are mostly gone now but have been replaced by another, more modern, major electric consumer. That is the server farm, or a cloud computing facility. They are sprouting up in some of the most unlikely and willing population, abundant electricity, and in particular, cool, dry temperatures, particularly at night. They don't have to have the constant expensive air conditioning keeping those computing systems cool. Sabey Corp, Yahoo and Microsoft have all built facilities in the Wenatchee area because of its abundant capacity of hydroelectric power.

The noisy news coming out of New York and across CNBC focusing on the catastrophe of the day would lead people to believe that the sky was falling in the later part of June. We have been watching with interest as the Federal Reserve Board comments about the direction of the economy, and the potential for backing off the quantitative easing by slowing down the pace of bond buying.

The volatility the stock and bond markets experienced over the last few weeks has the folks in New York hitting the eject button on anything that has a yield; whether it was a bond, a stock, or a real estate investment trust, it has been indiscriminate. I find it curious that as the economy has been slowly improving investors would be so skittish about the companies they own, and their ability to generate higher earnings. My gosh, if we're interested in being investors, and owning companies' successful results,

and we're able to do that during a period of time when, admittedly, the economy has been propped up by the Federal Government buying a tremendous number of bonds, wouldn't we even be more excited about owning those same companies when, in fact, we are experiencing higher employment? To me, I look at the current news and I see success in our economy, success that could lead to ongoing GDP growth of a positive, say, 2%. Not a big number, but a number that is very, very welcome. Maybe this will be just a 2% sort of time for awhile.

One of the things we haven't talked about in quite a few quarters is the "wall of worry." Well, that "wall of worry" jumped up vigorously, as I mentioned a moment ago, as the Federal Reserve has decided that they are going to focus on the concept of toning down quantitative easing or bond buying. The stock market loves to worry and when you give the market something like that, it really sends shivers through the timbers. This again is a time for me to say that we don't own the market, we own individual companies, and these individual companies, for the most part, are doing very well.

The economy, I believe, is on the mend. Housing prices (values) are moving up, consumers are consuming more, and new car sales are growing. But even so, managers of businesses are decidedly "belt and suspenders" cautious. During the past four years the US economy has managed to leave much of the financial disaster, the banking, and mortgage disaster behind. Real gross domestic product numbers have reached new all time highs when you adjust for inflation, and I'm referring to GDP highs just before the real trouble began back in 2007. Despite the improvements, most Americans continue to believe that the recession has never really ended, but it has, and we're on to a new leg of something. Corporate earnings generally are continuing to get better and, of course, that is because companies are so doggone careful to not let spending get out of control. They are very cautious and very hesitant to expand the work force. It is keeping their expense line lean and it means that shareholders are benefiting from that increased stream of better earnings.

The job market is slowly improving, although finding a job with benefits is more difficult, and finding a job that has a pension connected to it is nearly impossible. The new way of the world is for every person to build their own retirement account themselves. 401(k)s and the like will rule for awhile.

I've added three new companies in the last few months and I think that they're pretty darn exciting. The first one of these companies is Intel, headquartered in the West, not the Northwest, but Santa Clara, California. Intel, created in 1968, hasn't been in one of our portfolios for quite a few years, but the company has changed, the economy has changed, and what was a large growth company, now appears to be a huge, mature company with a solid dividend. Intel de-

signs, manufactures, and sells integrated digital technology platforms worldwide, and the world just seems to want to continue to own more of these wonderful technology bits.

Our next new company is from the East, but not the East of the United States, the East of Ireland, in Dublin - Eaton Corp, PLC. Eaton operates as a diversified power management company. They're involved in power transmissions, lighting and wiring products, hydraulic systems, and services for industrial, aerospace, and mobile electrical industries. They began operations in 1960.

The third company that was added recently is Sonoco Products. It's not the old name that we many times associate with a gasoline filling station. The company is in the packaging business - industrial and consumer packaging. Think Amazon orders. One of the things that they make is a simple cardboard tube that is used to help pour concrete footings. If you were to try to find one of those tubes at the local hardware store, or maybe even the giant Home Depot, you would find that they are in demand right now. I'm excited about the fact this company is not only in a growing business, but is also supporting a substantial dividend yield. The dividend is just over 3 1/2 %.

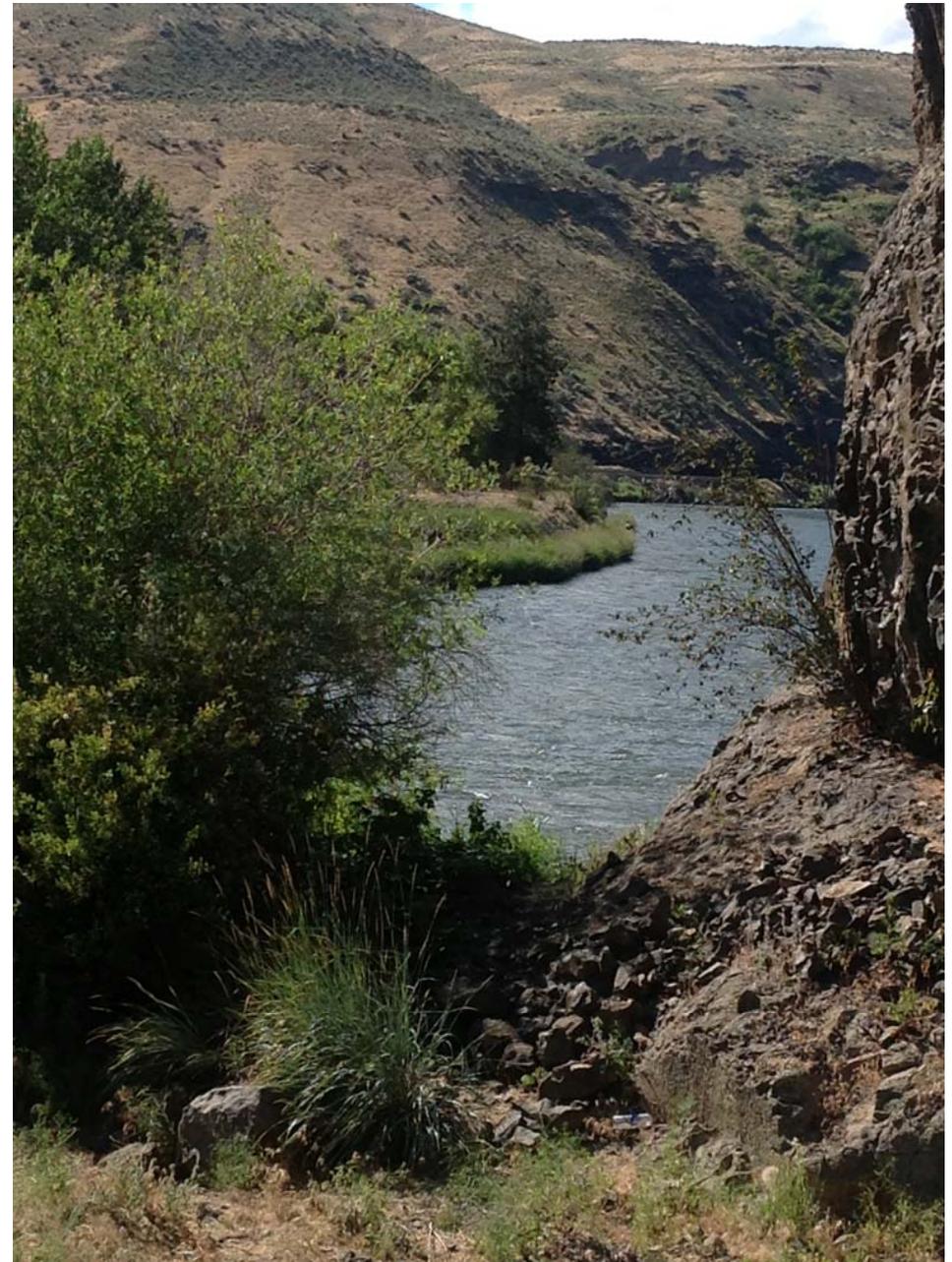
There are a couple of back office topics I want to address. One is how serious I am about striving to keep your personal information private. We have chosen to keep our records "in house" and are not embracing "cloud" data locations. Second, is how smooth, fast, and safe it is for us to move money between your bank and Cairn using the ACH System, until that electronic path is broken. This path is broken whenever there is a change in account numbers. So please keep us in the loop whenever there is a change in your bank account number or email address.

Cairn is keeping up with technology needs by installing a new Small Business Server system running the latest software from Microsoft. A new Intel server sporting a 4 core, 3.20 Gigahertz Xeon Processor, 8 Gigabytes of RAM Memory and Terabytes of Hard drive space make this a system that will support our growing business for years to come. We'll have the speed to run the programs we rely upon and the storage space to keep our data and many years of records. It will of course be accompanied by anti-intrusion and anti-malware software and hardware.

Happy Trails,



Jim Parr, Principal
Cairn Investment Group, Inc.



Picnic Spot Along the Yakima River

Photo by L. Parr