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Greetings from the Northwest.

Everyone has heard the concept that we shouldn't have all of our eggs in one basket, and that is our belief at Cairn. Diversification and careful selection have helped us through many years of up and down market cycles. But, just recently, I heard a different description: What do you want in your basket, tennis balls or chicken eggs? I'm going to vote for tennis balls. Although I will admit that in our basket of investments, not all of them bounce, we may have a couple of chicken eggs and those may have splatted. Maybe it's time to make an omelet. This last quarter's volatility just wouldn't end. We've had lots of noisy news items that are significant and have jumped on to our wall of worry. Under the weight of worry, equity prices have slid down for a while. Interest rates may be the topic that people are talking about most, but I go back to this core thought: The cost of energy and the demand for it around the world set the pace for weakness in global growth. Oil has firmed recently. Many times the pendulum of commodity prices swings way too far on the high side and the low side.

Important Reminders:

- **Bank Holidays October 12 & November 11—No Checks—No Settlement**
- **NYSE Closed for Thanksgiving Day**
- **NYSE Limited Hours November 27**

By the way, it's been delightful having Patrick and Brie join our firm. I know that many of you have had communication with both Brie and Patrick; also, many of you have met them either on the phone or in person. Delightful people who are adding depth and breadth to the skill level at Cairn Investment Group. Patrick was showing me a chart of past commodity index prices, and lo and behold, what are we seeing? Commodity prices are back down to a level that preceded economic expansion in 1993, 1999 and 2002. That means that we are primed for good economic growth in the country, and in the world. Low energy prices, low labor prices, low interest rates: All of these add up to an environment where if there was just a little more growth, we would have a significantly different environment for businesses to be doing business in. I'm going to try to make this fairly short; I know that Patrick and Brie both have a couple of things they would like to add to the quarterly letter. And oh, by the way, Tim right now is at his desk, waving his hands, saying "Hello Cairn Nation."

One trend that has happened to us this year is that a number of our Northwest premier investments have been purchased and



Innisfree, NY

Photo by: Virginia W.

become private. In other words, we had a great investment, but we are being cashed out. Precision Castparts is the leader of that list. Standard Insurance is a very significant second. MWI Veterinary Supply is a third company that is now private. This has caused us to have the equivalent of a money market rate of return on those share values from the time the takeover announcement was made until the time the takeover happens. So, in particular, the capital that was invested in Precision Castparts and Standard Insurance is to a great extent still in those shares; those shares have been very stable and have been paying a dividend. It's a little like having them as cash reserves. Now I'm trying to dovetail that concept - of substantial profit from these companies that have been taken private - with the idea that we also have drawn from our tennis balls and chicken eggs, and a few things that have gone splat. We will be entering into a period of time where we will be doing some tax loss harvesting, particularly of those companies in the 3-dimensional or additive manufacturing zone. So don't be surprised, as we go forward, if you see some action regarding harvesting tax losses.

A thought that has been discussed lately is the concept of inflation and that the Fed has not seen enough inflation to get excited. They have a fear of deflation, and I was thinking that maybe one of the best descriptions we could have about deflation is the example of technology. Most of us use a lot of technology nowadays that we didn't have just a few years ago, but technology is one of those places where we have experienced a lot of deflation. Go look at the television that can be bought at Costco for hundreds of dollars that used to cost thousands of dollars. Look at the cost of cell phones, look at the cost of nearly everything that is technologically connected, and you will see that prices are down. That is deflationary. An industry that is going in a deflationary way will face difficulties in producing a tremendous amount of revenue growth, sales growth, earnings growth, and share growth.

I'm going to turn this over to Patrick and then Brie.

Patrick Mason, CFP :: Investment Analyst

The third quarter could definitely be characterized as riding a roller coaster for equity investors. The quarter started with the steady upward movement that investors have grown used to over the last five years, only to have volatility spike as the quarter progressed. The volatility might be attributed to many factors, whether they be worries about Fed monetary policy, a slowdown in China, or continued political risks in the Eurozone. All of these factors could be blamed but the main culprit in our mind is that the broad market, measured by the S&P 500, has just become more expensive over the last five years and was probably due for a healthy pullback.

Our philosophy at Cairn has never been to invest in the broader market, but to invest in individual companies that generate strong profits and cash flows selling at good prices. So when the broad market has bouts of higher volatility, this gives us the opportunity to move out of companies that have become fully valued or expensive, and to buy companies that have become cheap, minimizing downside risk while allowing opportunity for future price appreciation.

Where We Are Finding Value?

The S&P 500 index is now trading at levels seen in May, 2014, but there have been companies and sectors that have come under more pressure as commodities have come down in price and as consumer and business spending have softened outside the US. This has allowed us to find relative bargains amongst the companies that we follow, because select companies have prices and valuation metrics not seen in many years. In the short term, investor psychology can become overly pessimistic and drive share prices far from fair value, which gives us opportunities in some select sectors.

We are starting to see valuations in select companies across the consumer discretionary space that were not there just a year ago, and will continue to take advantage of opportunities as portfolio changes become warranted. We also believe there are opportunities in the energy and industrial space, but discipline needs to be strict, since some firms have sacrificed financial health for expansion opportunities over the previous few years.

Finally, large cap technology still offers good value as investors have seemed to sour on that space in exchange for higher-growth, more speculative names in the start-up technology arena.

We will continue to be vigilant and focused on risk management during this time of elevated market volatility, while continuously scouting for opportunities that present themselves.



Patrick Mason

Brie Valant :: Investor Services Manager

If you have recently received electronic documents from us via email, you may have noticed a change in the process for accessing the attachments. In an effort to enhance security for our clients, we have implemented a new encryption software program - Citrix ShareFile. It is pertinent to note that, when downloading documents using the Citrix ShareFile program, you will be brought to a web portal that asks you to enter your first and last name, and your email address. This is ok to enter! The information is used to notify us that you have downloaded the file. If you would like any additional information on Citrix ShareFile, including their stats such as SSL/TLS protocols and AES 256-bit encryption, please call.

So please, as I have often said, the coffee pot is on and we would love to see you any time that you're near.

Happy Trails,

A handwritten signature in black ink that reads "Jim".

Jim Parr, Principal

Cairn Investment Group, Inc.