CAIRN INVESTMENT GROUP

Newsletter and Quarterly Update

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Is the volatility of the recent past over? Probably not. But, I believe now is a great time to take some advice from the ñBuffettsò. Warren is out buying companies that appear to be inexpensive and Jimmy is reminding us that this too will pass and we should enjoy our lives on a beach somewhere.

The liquidity crisis is not yet resolved. Congress has just passed a plan. The goal is to provide cash flow for companies that are suffering from the fallout of poor lending practices and unstable real estate valuations by having the U.S. Treasury buy bundles of mortgaged backed bonds whose values are now not easily known but which should be clearer and probably worth more in the future.

Tim found this one on a summer hike.

As an investor, these times are as tough as Iõve ever seen. But this is what creates opportunities. On the day the Dow was down 777 points the NYSE also reported an astonishing NYSE High/Low report of 15 to1170. Thatõs 1170 companies hitting 52 week lows and 15 companies hitting 52 week highs. We are digging into the lows to see if we can get some good vibes from some beat up companies and broaden our portfolios with new investments. The Dow, S&P and EAFE ended up the quarter and year to date as follows:

Dow Jones	S & P (all minus dividends)	EAFE (Foreign)
-4.4% quarter	-9% quarter	-19.23% quarter
-18.2% year	-20.68% year	-32.17% year

It would appear that many investorõs individual results are better than the indexes, and less volatile. Thatõs our goal.

We are now going to launch into ñtax loss selling seasonò (or how to make lemonade out of lemons). We will not be alone in this effort and I would expect lots of volatility during the 4th quarter as institutions, money managers and mutual funds buy and sell securities in order to establish tax losses as well as position themselves for the end of the year.

As you receive confirmations of tax loss sales, please remember that in order to take a tax loss you must be at financial risk a minimum of 31 days. That means that a tax loss can be achieved by buying additional shares and then selling the original lot after 31 days or by selling and buying back after 31 days or a combination. So you may see something like:

Currently own 300 ABC – buy 300 more – 31 days later sell original 300 shares.

OR

Currently own 200 XYZ – sell 200 – 31 days later buy back 200 shares.

(continued)

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With some skill and luck the desired result is achieved and it is generally neutral to the amount of cash reserves in the money market portion of the portfolio.

We have had a few calls asking for a refresher on how safe our cash and securities are at our custodian, Schwab Institutional, The answer is very.

First we have SIPC insurance:

ñAccounts of Charles Schwab & Co., Inc. are protected by the Securities Investor Protection Corporation (SIPC) for securities and cash in the event of broker-dealer failure. This protection does not cover fluctuations in or losses related to the market value of your securities. The SIPC provides up to $500,000 of protection for clientsô accounts held in each separate capacity such as joint tenant or sole owner, with a limit of $100,000 for claims of un-invested cash balances. More information about SIPC coverage is available at www.sipc.org.ò

Schwab Institutional has also purchased additional insurance:

ñAt Schwab, we believe our clients deserve the reassurance of an extra level of coverage from a well-respected name in the insurance industry. Thatôsôwhy we chose Lloydôs of London as underwriter for additional brokerage insurance.

Lloydôs coverage and SIPC coverage provide protection of securities and cash up to an aggregate of $600 million, and is limited to a combined return to any customer from a Trustee, SIPC and Lloydôs of $150 million, including cash of up to $1 million. This additional protection becomes available in the event that SIPC limits are exhausted. This protection does not cover fluctuations in, or losses related to, the market value of your securities.ò

The recent collapse of some banks and some very old New York brokerages has also caused quite a few investors to re-visit the FDIC limits on their bank account cash and move money to us to invest in a variety of instruments including CDôs, Treasuries and Municipal bonds. We purchase CDs from banks all over the country. We own only up to the FDIC insurance limits of any particular bank in any individual account to limit the exposure to the FDIC covered amount. We are open for business and eagerly looking to expand as others contract.

Welcome to Cairn

Gifting. What the markets did not batter and bruise you may wish to gift to a worthy cause or a family member to meet an estate planning objective. If at all possible Iôd like to avoid a year end rush by getting your gifting desires done as early as is practicable.

Not everything is doom and gloom. In fact this isnôt even the worst quarter of the year so far! US Bank, a significant holding at Cairn has been at 52 week highs very recently and Barronôs magazine featured Starbucks as an undervalued company this week!

On the Cairn domestic side of things; Ellen would like to remind everyone that when you are sending a check for deposit to your account please make it payable to yourself. For example: John & Jane Doe or John Doe Trust or John Doe SEP-IRA etcé the key is, itôs your money, not ours!

Warm Regards, Jim Parr, Principal