CAIRN INVESTMENT GROUP

Newsletter and Quarterly Update October 2009

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Important Reminder:

You are not required to take a 2009 RMD from your IRA, but you may if you wish. Please contact our office.

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Greetings from the Northwest!

After a crushing series of down quarters in parts of the last two and one half years, I'm tremendously pleased to report a change in investment direction, away from the "Great Panic" of March '09 with a second "up" quarter in a row! "Up" is a relative description. Up from what? Up from the largest declines since the 1930's, but not necessarily from the price paid for an investment. Either way, "up" in the investment world is generally good.

Often folks are referring to the Dow Jones Industrial Average when they talk about the market being up or down. Certainly the Dow has been gut wrenching to watch and experience in its slide from 14000 to 6500. Likewise, the recovering gain to 9500 in about six months has been a percentage gain that we have not experienced in 20 years.

All of the portfolios that we manage are custom, with none having the exact same ownership or experience as another, but there are overlaps in investments whether they are portfolios of individual issues or of mutual funds.

This quarter I invite you to look at some of the individual issues in your portfolios: in particular many of the common stock and preferred stock positions that have recovered a significant amount since March 6, 2009.

Here are a few companies in different economic sectors:

Sector	*Company*	*Mar. 6, 09*	*Sept. 30, 09*
Finance:	*US Bank*	*$8.82*	*$21.86*
	Stancorp Financial	*$14.73*	*$40.37*
Retail:	*Nordstrom*	*$12.16*	*$30.54*
Manufacturing:	*Precision Castparts*	*$49.05*	*$101.87*
Materials:	*Sigma Aldrich*	*$32.67*	*$53.98*
Preferreds:	*Royal Bank of Scotland*	*$2.73*	*$10.71*
	Public Storage	*$17.64*	*$24.91*

Great Salt Lake

Another bright spot has been the stability of municipal bonds. Portfolios holding state and federal tax free municipal bonds have experienced a much calmer investment result, albeit with yields that are lower than we normally get excited about.

A surprise to the upside has been in the corporate bond arena. Most of our investors get their corporate bond exposure inside of mutual funds and their values have been improving this quarter.

Our portfolios are quite diverse and subsequently hold a number of issues, including a portion of cash. Not all issues have had a robust increase in value. In particular the regional banking sector has been poor. We are watching with interest a group of regional banks that are struggling. We applaud the efforts they are making to maintain the FDIC capitalization requirements to be able to continue as going concerns. One of the last tasks that we do on Fridays at the close of business is to check the FDIC current list of bank failures. So far, only three Oregon banks have been taken over by the FDIC; Community First Bank of Prineville, Silver Falls Bank of Silverton, and Pinnacle Bank of Oregon in Beaverton. We have owned none of these.

Tim and I were recently trying to sort out the question of "Are we out of the woods now, or are we just getting used to the dark?" It is unclear. And that is what I would expect as we climb the wall of worry that I wrote about last quarter. Expansion or contraction of the market and the economy are connected. Entering or leaving a recession determines which one falters or recovers first. Leaving a recession, the market should recover first, with significant improvements in share values several months or quarters earlier than the confirmation of the economy recovering. That is, the economy as it is measured by unemployment rates. I suspect that this will be a "jobless" recovery. This is because businesses have right-sized themselves to fit the revenues they are experiencing and expect in the foreseeable future. A company that once had 100 employees and now has 80, will hire back only a portion of those laid off since the company has probably learned to reach higher levels of efficiency with fewer people. The real rough part of this is now, when our communities are suffering with high unemployment, and homes are being lost because a household has less available income. The recession will drag on. It would not surprise me that while investments improve, unemployment will grow, and in our home state of Oregon, we could see the current unemployment rate of 12.2% hit 15%. For our economy to engage in a broad based sustainable recovery, I believe people must be more confident in their job opportunities and their home values than they are now. It will be slow.

Some of the earlier responding companies in a recovery are those that provide us with raw materials and commodities. Once the supply or capacity of an economy is depleted during a slowing period, the first surge in demand usually drives up prices on things like natural gas, oil, steel, chemicals and other base materials. Our portfolios, including mutual funds, have been guided in this direction. I am also confident that we will see a resurgent interest in healthcare companies as Congress battles on towards some clarity of health priorities in our country.

Interest rates are close to all of our hearts and pocket books. At some point these extra low rates will go up. This may be driven by the extra burden of debt our country has taken on and the ensuing inflation that usually follows. That would be a sad side effect of our current stimulus spending. During the last quarter we have worked hard to come up with some alternatives to holding cash in money market funds and many of you have now

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received confirmations showing some level of ownership in different and, we hope stable higher yielding taxable and tax free investments. It is our goal to sell these as interest rates begin to rise. Should be fun trying to time this effort.

There is lots of speculation as to whether this recovery is a "**V**" bottom, a "**W**" or a "√". These are efforts to simplify the economy, something that is not simple and is very difficult to predict. I am very upbeat about the next expanding market cycle that I believe we are entering. We will enter slowly and pick up speed.

Warm Regards,

Jim Parr, Principal

P.S. October 10, 2009 is the Dedication of Oregon State Heritage Site, Iwetemlaykin. Located on the shores of Wallowa Lake.