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**Important Reminder:**

- **For 2010 you are required to take the RMD from your IRA if you are over 70 1/2 years old.**
- **If you use the ACH system, please let us know when you change banks or account numbers.**

Greetings From The Northwest.

Oh, what a long strange trip it's been. The great recession was officially over in June 2009, according to the National Bureau of Economic Research. Great, unless you are trying to sell your home, have lost your job, or had your investments "re-set" over the last three years. In rough numbers, the market peaked at DJIA 14000, bottoming down 55% at 6500, and then gaining 70% to the current level of 11000. Still, a gap of 25% exists back to the heady highs of 14000. Add to this period new and exciting events like the "flash crash" of May 6, which now seems to be attributable to one trader who placed a \$4 billion futures trade that sent the markets into shock. Most of the financial chatter is just noise, confusing investors' thoughts about what is really developing in the economy.

Public companies are becoming profitable again! Profits mean you can calculate earnings, and earnings matter. This is a result of companies right sizing themselves to match the revenue stream of their businesses in the current economy. To illustrate the growing wave of earnings increases, I have included a chart that covers many of our most closely watched companies and how they recently reported. Seven companies missed, four met, and twenty-four beat analysts' estimated earnings per share. That is very good. The economy is smaller, the velocity of money slower, and, outside the world of Wall Street, most people are experiencing the long drawn-out reality of a slow recovery.

Probably the single largest obstacle in our path to recovery is the housing supply. There are still too many dwellings of all types for the number of buyers. Until real estate prices stop declining and firm up a bit, main street will continue to suffer. Consumers will not consume unless they think they are comfortable.

Many of our closely watched companies derive much of their revenue from overseas sales. Many overseas companies seem to like what they see in each other. According to Thompson Reuters, "Cheap loans and sluggish

Company Name	Est. EPS	Actual EPS
<b>Missed Expectations</b>		
U.S. Steel Corp.	\$ 0.63	\$ (0.17)
Bristol Myers Squibb Co.	\$ 0.55	\$ 0.53
Medtronic, Inc	\$ 0.81	\$ 0.80
StanCorp Financial Group, Inc.	\$ 1.24	\$ 1.04
Johnson & Johnson	\$ 1.24	\$ 1.21
Precision Castparts Corp.	\$ 1.71	\$ 1.65
ConAgra Foods, Inc.	\$ 0.40	\$ 0.34
<b>Met Expectations</b>		
Starbucks Corp.	\$ 0.29	\$ 0.29
Realty Income Corp.	\$ 0.46	\$ 0.46
Sysco Corp.	\$ 0.57	\$ 0.57
Target Corp.	\$ 0.92	\$ 0.92
<b>Beat Expectations</b>		
The Greenbrier Companies	\$ (0.02)	\$ 0.23
Sara Lee Corp.	\$ 0.25	\$ 0.28
General Electric Co.	\$ 0.27	\$ 0.30
Portland General Electric Co.	\$ 0.29	\$ 0.32
Flir Systems, Inc.	\$ 0.36	\$ 0.37
Cisco Systems, Inc.	\$ 0.42	\$ 0.43
U.S. Bancorp	\$ 0.38	\$ 0.45
AT&T Inc.	\$ 0.57	\$ 0.61
Pfizer, Inc.	\$ 0.53	\$ 0.62
Consolidated Edison, Inc.	\$ 0.54	\$ 0.65
Nordstrom, Inc.	\$ 0.65	\$ 0.66
H.J. Heinz Co.	\$ 0.72	\$ 0.75
Emerson Electric Co.	\$ 0.67	\$ 0.78
Sigma-Aldrich Corp.	\$ 0.78	\$ 0.81
Merck & Co., Inc.	\$ 0.83	\$ 0.86
CenturyLink, Inc.	\$ 0.85	\$ 0.88
Abbott Laboratories	\$ 1.00	\$ 1.01
SanDisk Corp.	\$ 0.89	\$ 1.08
E.I. du Pont de Numours & Co.	\$ 0.92	\$ 1.17
The Clorox Co.	\$ 1.20	\$ 1.20
Esterline Technologies Corp.	\$ 1.15	\$ 1.30
National Presto Industries, Inc.	\$ 1.84	\$ 2.18
Northrup Grumman Corp.	\$ 2.19	\$ 2.34
Chevron Corp.	\$ 2.44	\$ 2.70

growth prospects in Western economies are fueling a wave of international mergers and acquisitions, a buying spree helped by continued strength stemming from emerging markets. Even after the most active August in a decade for M&A, the action has not stopped, with more than \$50 billion of deals surfacing this week from Shanghai to South Africa to Brazil. Spurring the takeovers are large cash piles building up on corporate balance sheets and low borrowing costs.” This has been positively impacting some of our international mutual fund investments as well.

In my role at Cairn I’m always trying to be vigilant on two fronts that tend to be agents of frustration for investors: inflation and taxes. A note from our good friends at Value Line Investment Survey says, “Inflation is in a comfort zone. Data issued last month, for example, showed that the Producer (wholesale) and Consumer Price Indexes were up modestly in August, with the reports indicating that quotations for energy, pharmaceuticals, and transportation were higher, while costs for apparel, household furnishings, and recreation eased somewhat. Overall, inflation remains subdued. At the same time, the much feared deflation, or falling prices, hasn’t surfaced to any degree.”

If I listen carefully, I can hear a collective sigh of relief from our investors. Please be clear, though, that a modest amount of inflation of 1 – 3% is important for our future economic growth.

Here in the Northwest we are excited by announcements from a few of our local companies.

- Flir Systems has purchased Ray Marine and ICx Technologies for a total of \$448 million.
- Greenbrier Rail and Marine has received a new railcar order for \$200 million.
- Starbucks new VIA Instant Coffee hit over \$100 million worldwide sales in its first year.

Cairn Updates:

IRA RMDs are a must for those folks over 70 ½ years of age. 2009 was optional, but 2010 is back to mandatory. If you have not yet taken the distribution then you will soon be contacted by our office. It will likely be Theresa on the line.

For any number of reasons, people change banks or bank accounts. If you use the ACH process to have us move money between your bank and investment accounts, please notify us as soon as possible when you change banks, or account numbers, as the change cuts off the connection to Cairn.

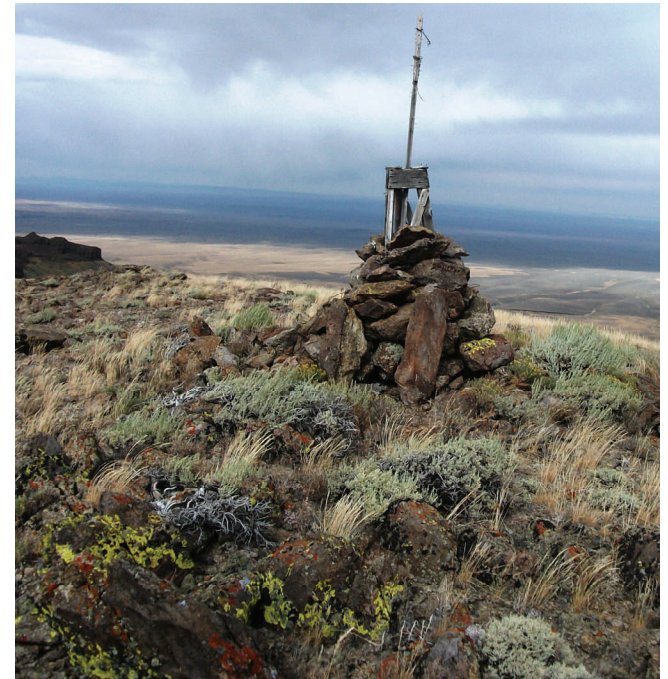
Theresa, our new Investor Support person whom I mentioned above, brings more than a decade of experience as an administrative assistant to our team. More often than not, she is the voice of Cairn answering the phone and greeting visitors to our office. A native of South Carolina, Theresa has lived in the Portland metro area since age seven. She and her husband are enjoying the early years of their two sons’ college experiences. Many of you have met her in the office. Don’t hesitate to introduce yourselves over the phone. She is eager to meet you.

Well, that’s it. A good quarter by many measures.

Warm Regards,



Jim Parr, Principal



Cairn on Capitol Peak  
Northern Nevada  
Photo by: Tim Mosier