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Important Reminders:

- April 18 IRA Contribution Deadline
- We Will Be Closed April 22, as the Markets Honor Good Friday
- If you use the ACH System, Please let us know when you Change Banks or Account Numbers

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Greetings From The Northwest.

Holy Smokes! Please, someone, turn down the velocity of events happening around the world. I don't think we have had such a busy news flow since the autumn of 2008, when many banks, brokerages, and insurance companies were flailing. There are probably four main categories of sudden news of late: The Middle East, The Japanese Tsunami, State and Local Municipal Credit Ratings, and Portugal's need for a European Union bailout.

Portugal's problems, as well as those of Ireland, Spain and Iceland, and not long ago Greece, are all related to banking, borrowing, loaning and building regulatory systemic failure. It appears that those in charge may have turned a blind eye to the economic rule that what expands too fast will pop like a water balloon and get everyone messy. There is a direct line from Portugal's problems to the creative thinkers on Wall Street and elsewhere who provided the example of how to over value property and assets into larger and more exciting profits, profits that became the real estate and banking bubbles that burst in New York with Lehman Brothers' failure in 2008, and continue today in falling real estate prices from Portugal to Australia to Las Vegas. Portugal, being part of the European Union, is too important to fail. The Europeans will find a way to structure a workaround for Portugal, just as the US did with AIG not long ago.

So, having neatly dispatched our concerns over Portugal and the other four little PIIGS (Portugal, Ireland, Italy, Greece and Spain), let's look at local and state credit quality. In December of 2010, Meredith Whitney, a banking analyst, stepped up to our "wall of worries" and shouted via the media that there will be massive defaults in the local and state municipal bond markets. I say she is wrong. Fears of widespread municipal defaults are vastly overblown. This is especially true in Oregon. Even as our legislature struggles with the state budget, the Oregon situa-

Black Peak, Idaho *Photo by: Jared Mosier*

tion is one of modest indebtedness compared to many other states. Municipal Bonds remain a high quality asset class, with features that make widespread default unlikely. Tim and I recently attended a forum sponsored by the Portland Chapter of Certified Financial Analysts, where the panel of (1) a representative of the state of Oregon, (2) a local municipal bond underwriter, and (3) a state specific municipal bond mutual fund manager, fielded our questions. The municipal situation is different from state to state. That being said, since 1970, the national default rate for investment grade municipal bonds is 0.06% vs. 2.50% for corporate bonds. Plus, in the event of a default, municipals have a higher rate of recovery of principal as well. A real positive eye opener is a recent report that compares the United States to the troubled "PIIGS" mentioned earlier. The report by Fidelity shows that in Fiscal Year 2010, for the top 20 debt issuing states, annual debt service averaged 3.9% of expenditures compared to 13.9% for Greece. Additionally, debt as a percentage of Gross Domestic Product (GSP for states) Greece 141%, Ireland 99%, Illinois

22%, California 18%, and Oregon 8%. Clearly it is possible that there can be municipal defaults, but I believe that, between careful selection and responsible issuers, investors will experience very few.

On the cover of a recent Economist magazine, there was a representation of earth with a barrel of oil sticking out of the Middle East and a lit fuse burning towards the barrel with "Just as The World Economy Was Recovering" written in the dark sky. Oil = Energy = a portion of the cost of just about everything. There is a growing list of alternative techniques that the world is employing to produce energy. These other sources are providing smaller parts of a solution to our enormous global energy demand that has been, and, probably for some time yet, will be met by oil. In 2008 when oil hit about $150 barrel, I indicated that the price would begin to slow the global economy. That and the banking meltdown caused a slowdown/recession that saw oil swoon to roughly $50 barrel. Energy prices are simply a governor on the speed of the economy and can be a cause of either economic expansion or contraction. The rapidly evolving Middle East tension is sending shock waves through our energy flow expectations. Fear of less availability is causing oil price increases and these increases are likely to be a contributor to inflation.

The economists huddled at the bottom of our "wall of worry" are shrugging off the fear of deflation and excitedly worrying about inflation. Inflation can show up in many different forms. Some of these are upon us now, led by increases in energy costs, as well as commodities such as wheat and pork bellies and precious metals. The Fed with its creation or printing of more dollars is also inflationary. One area where we are not seeing any inflation is in increased wages. Yes, there is a slight increase in employment, but we have a long way to go to experience wage increase-induced inflation. In the United States we still have a vast number of workers who are unemployed or underemployed, and until they are working there won't be wage increase inflation.

Japan's earthquake and the tsunami's effect on the world economy are probably the most challenging to figure out at this time. Japan's economy is big and durable and only a portion of the country has been hit, but oh, what a hit. The heavy industrial area between Nagoya and Osaka has not been affected. Tokyo, the financial center, is open for business; there was no major damage there. The Bank of Japan has flooded the economy with cash, pumping $183 billion into money markets this past weekend. The long term lack of electricity and the potential pollution from the ruptured nuclear plants seem to be the most challenging issues for the economy to absorb. We are now seeing the beginning of what I'm sure will be a broader list of manufacturing disruptions. Too few iPod batteries to go around. Radiation pollution will scare off international buyers of Japanese fish and produce specialties for an unknowable period of time. The earth shook and the tsunami struck, but the disaster is still underway. I'm sure this sounds a bit harsh, but I don't think the Japanese quake/tsunami/nuke disaster will have much of an economic impact on the world. It may even bring increased business to some of the companies we own, such as Weyerhaeuser, Sigma Aldrich and Dupont. May we all be in a safe place when the disaster strikes here.

For the better part of three years many investors in big banks have been biding time, waiting for bank management to announce that they would increase their dividends. Some banks now have. Not as much as people had hoped for, so share prices have softened for now. I'm glad the conversation about banks is now about how much of a dividend increase instead of about possible bankruptcy. Across the nation, state and local tax revenues are increasing, and general manufacturing is stronger, with industrial equipment leading the way. Merger and acquisition activity is hot, and regionally one of our local companies, McCormick & Schmick's Seafood Restaurant, is being bought out by a national company. What is continuing to impress me is that earnings continue to beat estimates. At the end of this letter I've attached a chart of the last three quarters of earnings announcements for many of the companies we follow. More companies are still beating analysts' expectations. This is good. Earnings matter.

Barring any other noisy disasters to hang on our "wall of worry," the investment world looks pretty bright. Earnings are advancing, consumers are cautiously spending, and the world wants more energy and better nutrition. Low interest rates are frustrating investors looking for income, especially retirees with expectations of a certain lifestyle. Investments that can keep up with, or beat, inflation and taxes plus provide an income stream are in focus, and that suits me fine. We can invest in this situation with some confidence, knowing that we are roughly two years into an economic recovery that should last several more. The water is choppy, the currents elusive, but the wind is at our backs.

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Switching focus to some light housekeeping, there are several notable items.

- First, we would like to be near the top of the list of people to contact when you have an address, phone or email change. By contacting us with your new information, you let us help you.

- Theresa, our investor support and front office person, is married to an industrious young man who has received a promotion right out of the area. She went with him. We wish them success.

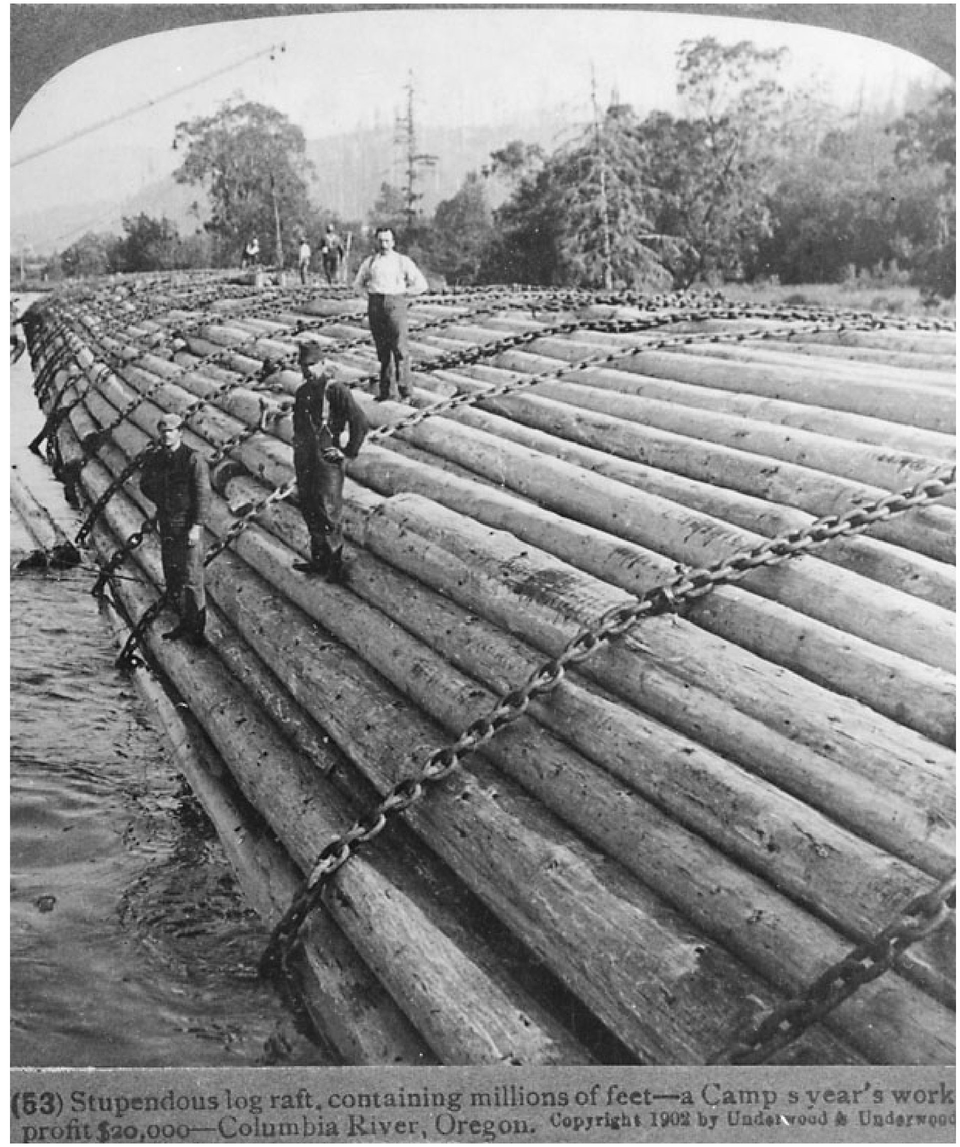
- New financial services industry compliance regulations in the recently enacted Frank-Dodd Bill require that we provide you with a narrative "plain English" version of our firm brochure. Accordingly, enclosed is our new Form ADV Part 2A Firm Brochure that provides complete disclosure about our firm. We are also required to provide you with complete details about the advisers in our firm with whom you work. We have included the biographies and supervisory details Form ADV Part 2B, Firm Brochure Supplement, as an integral part of our Firm Brochure. As a result, both Part 2A and Part 2B are provided as one document for ease of reading.

The updated ADV is all about us meeting the requirements of communicating in plain language. Tim and I and our staff embrace this. We have tried to take to heart Will Rogers' musing, "I love words, but I don't like strange ones. You don't understand them, and they don't understand you. Old words is like old friends – you know 'em the minute you see 'em."

Happy Trails,

Jim

Jim Parr, Principal
Cairn Investment Group, Inc.



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Quarterly Earnings Comparison

Company Name	Q3 Est	2010 Actual	Company Name	Q4 Est	2010 Actual	Company Name	Q1 Est	2011 Actual
Missed Expectations			**Missed Expectations**			**Missed Expectations**		
Bristol Myers Squibb Co.	$ 0.55	$ 0.53	Chevron Corp.	$ 2.15	$ 1.87	Alliant Energy **	$ 0.56	$ 0.43
ConAgra Foods, Inc.	$ 0.40	$ 0.34	Clorox Co.	$ 1.14	$ 0.98	CentruyLink, Inc.	$ 0.77	$ 0.76
Johnson & Johnson	$ 1.24	$ 1.21	Emerson Electric Co.	$ 0.76	$ 0.75	Emerson Electric Co.	$ 0.65	$ 0.63
Medtronic, Inc.	$ 0.81	$ 0.80	Greenbrier Companies	$ (0.09)	$ (0.15)	Leggett & Platt, Inc.	$ 0.23	$ 0.21
Precision Castparts Corp.	$ 1.71	$ 1.65	Leggett & Platt, Inc.	$ 0.37	$ 0.31	Portland General Electric Co.	$ 0.39	$ 0.34
StanCorp Financial Group, Inc.	$ 1.24	$ 1.04	National Presto Industries, Inc.	$ 2.24	$ 1.92	Sara Lee Corp.	$ 0.25	$ 0.24
U.S. Steel Corp.	$ 0.63	$ (0.17)	Sara Lee Corp.	$ 0.18	$ 0.13	StanCorp Financial Group, Inc.	$ 1.24	$ 1.12
			U.S. Steel Corp.	$ 0.23	$ (0.35)	Sysco Corp.	$ 0.47	$ 0.42
						Target Corp.	$ 1.40	$ 1.38
						U.S. Steel Corp.	$ (1.12)	$ (1.22)
Met Expectations			**Met Expectations**			**Met Expectations**		
Realty Income Corp.	$ 0.46	$ 0.46	AT&T Inc.	$ 0.55	$ 0.55	Bristol Myers Squibb Co.	$ 0.47	$ 0.47
Starbucks Corp.	$ 0.29	$ 0.29	ConAgra Foods, Inc.	$ 0.45	$ 0.45	Consolidated Edison, Inc.	$ 0.69	$ 0.69
Sysco Corp.	$ 0.57	$ 0.57	Sysco Corp.	$ 0.51	$ 0.51	Flir Systems, Inc.	$ 0.43	$ 0.43
Target Corp.	$ 0.92	$ 0.92	Target Corp.	$ 0.68	$ 0.68	Johnson & Johnson	$ 1.03	$ 1.03
						National Presto Industries, Inc.	$ 3.23	$ 3.23
						Precision Castparts Corp.	$ 1.80	$ 1.80
						ST MicroElectronics N.V. **	$ 0.24	$ 0.24
Beat Expectations			**Beat Expectations**			**Beat Expectations**		
Abbott Laboratories	$ 1.00	$ 1.01	Abbott Laboratories	$ 1.04	$ 1.05	Abbott Laboratories	$ 1.29	$ 1.30
AT&T Inc.	$ 0.57	$ 0.61	Bristol Myers Squibb Co.	$ 0.53	$ 0.59	AT&T Inc.	$ 0.54	$ 0.55
CenturyLink, Inc.	$ 0.85	$ 0.88	CenturyLink, Inc.	$ 0.80	$ 0.83	Chevron Corp.	$ 2.32	$ 2.64
Chevron Corp.	$ 2.44	$ 2.70	Cisco Systems, Inc.	$ 0.40	$ 0.42	Cisco Systems, Inc.	$ 0.35	$ 0.37
Cisco Systems, Inc.	$ 0.42	$ 0.43	Consolidated Edison, Inc.	$ 1.22	$ 1.24	Clorox Company	$ 0.46	$ 0.68
Clorox Co.	$ 1.20	$ 1.20	E.I. du Pont de Numours & Co.	$ 0.33	$ 0.40	ConAgra Foods, Inc.	$ 0.47	$ 0.50
Consolidated Edison, Inc.	$ 0.54	$ 0.65	Esterline Technologies Corp.	$ 1.20	$ 1.60	E.I. du Pont de Numours & Co.	$ 0.32	$ 0.40
E.I. du Pont de Numours & Co.	$ 0.92	$ 1.17	Flir Systems, Inc.	$ 0.38	$ 0.39	Eli Lilly & Co. **	$ 1.10	$ 1.11
Emerson Electric Co.	$ 0.67	$ 0.78	General Electric Co.	$ 0.27	$ 0.29	Esterline Technologies Corp.	$ 0.65	$ 0.97
Esterline Technologies Corp.	$ 1.15	$ 1.30	H.J. Heinz Co.	$ 0.73	$ 0.78	General Electric Co.	$ 0.32	$ 0.36
Flir Systems, Inc.	$ 0.36	$ 0.37	Johnson & Johnson	$ 1.15	$ 1.23	Greenbrier Companies	$ (0.15)	$ (0.11)
General Electric Co.	$ 0.27	$ 0.30	Medtronic, Inc.	$ 0.81	$ 0.82	H.J. Heinz Co.	$ 0.80	$ 0.85
Greenbrier Companies	$ (0.02)	$ 0.23	Merck & Co., Inc.	$ 0.82	$ 0.85	Medtronic, Inc.	$ 0.83	$ 0.86
H.J. Heinz Co.	$ 0.72	$ 0.75	Nordstrom, Inc.	$ 0.49	$ 0.53	Merck & Co., Inc.	$ 0.84	$ 0.88
Merck & Co., Inc.	$ 0.83	$ 0.86	Northrup Gruman Corp.	$ 1.46	$ 1.64	Molex, Inc. **	$ 0.42	$ 0.45
National Presto Industries, Inc.	$ 1.84	$ 2.18	Pfizer, Inc.	$ 0.51	$ 0.54	Nordstrom, Inc.	$ 1.00	$ 1.04
Nordstrom, Inc.	$ 0.65	$ 0.66	Portland General Electric Co.	$ 0.45	$ 0.65	Northrup Gruman Corp.	$ 1.00	$ 1.27
Northrup Gruman Corp.	$ 2.19	$ 2.34	Precision Castparts Corp.	$ 1.68	$ 1.70	Pfizer, Inc.	$ 0.46	$ 0.47
Pfizer, Inc.	$ 0.53	$ 0.62	SanDisk Corp.	$ 1.05	$ 1.34	SanDisk Corp.	$ 1.08	$ 1.27
Portland General Electric Co.	$ 0.29	$ 0.32	Sigma-Aldrich Corp.	$ 0.73	$ 0.76	Sigma-Aldrich Corp.	$ 0.79	$ 0.83
SanDisk Corp.	$ 0.89	$ 1.08	StanCorp Financial Group, Inc.	$ 1.21	$ 1.39	Starbucks Corp.	$ 0.39	$ 0.45
Sara Lee Corp.	$ 0.25	$ 0.28	Starbucks Corp.	$ 0.32	$ 0.37	Telefonica SA **	$ 2.24	$ 2.25
Sigma-Aldrich Corp.	$ 0.78	$ 0.81	U.S. Bancorp	$ 0.43	$ 0.45	U.S. Bancorp	$ 0.46	$ 0.49
U.S. Bancorp	$ 0.38	$ 0.45						

*** Additions to the Portfolios — Deletions in Q4: Realty Income Corp*