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**Important Reminders:**

- **Send Us Your Updated Email Address**
- **Annual Privacy Notice Enclosed**
- **If You Use The ACH System, Please Let Us Know If You Change Banks Or Account Numbers**

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Greetings From The Northwest.

This past quarter has been notable for unsettling volatility, both up and down. Not just the stock market, but bonds, futures, real estate, currencies, and anything else where a market exists. During the first two thirds of the quarter, the economy hit a soft patch. This was reversed by improvements in June. There are so many things for investors to worry about that if you wrote each worry on a post-it-note and stuck them on our “wall of worry” you couldn’t see the wall for all our worries. As an investor I’m comfortable with all of these worries on our wall. High priced markets and investment bubbles are born when investors stop worrying and all gleefully pile into investments late in a business cycle.

Just like last year, the second quarter of 2011 had a month of May. May of 2010 was a doozy in that we experienced the first, and we hope, last “flash crash.” This was a short, three hour, violent episode of market mayhem that caused many investors to approach this May with some apprehension. Might we experience another such event? Or even just the garden variety “sell in May and go away” classic decline? Well, we didn’t. I don’t believe that the “sell in May and go away” notion plays out when you really look at the historical numbers. In addition, that fun phrase leaves you out of the market, hanging there, with no clear signal when to reenter the fray and say good bye to the crowd sitting on the sidelines.

The economy is improving slowly. Or maybe the recovery is lagging, but many public companies are doing well. They are turning in good earnings numbers since they right sized themselves during the recession.

We have experienced numerous speed bumps on our recovery road. Chief among them has been the woefully extended unwinding of our banking system here and abroad. Will it ever end? Yes. Will people ever trust bankers again? Probably. But stay away from their fancy new products. It’s the unknown complexity that these new products bring to our lives that will bite us again until we learn to say no. There seems to be a broad number of investors who are forgetting some of the basic tenets of investing. Aside from spending your money, you really have only two choices of what to do with wealth. You may make a loan to an



Preikestolen, Norway

Photo by: Jared Mosier

entity or you may own something. Loan or own. Simplicity.

I believe we are now experiencing a very confusing period of time prior to a significant global economic expansion. The headwinds are strong, but will ease over time. One of the strongest headwinds is an overabundance of built, but not occupied, real estate, centered around single family homes. More foreclosures are coming on to the market which will keep prices low, if not lower than they are now. I believe that interest rates will stay low until there is a significant change in housing. Both demand and prices must be up before the Federal Open Market Committee will begin to raise rates.

The economic soft patch earlier in the second quarter slowed the recovery here and overseas. Oil, probably the biggest and most notable component of inflation, declined from an economy-slowning April high of \$115 per barrel to a more reasonable \$95 a barrel in June. I expect to see oil continue down to roughly \$85 a barrel prior to reversing upward at about the same time housing prices firm and begin rising. If oil is below \$100 a barrel, housing is firming, and interest rates are still modest, we should experience a period of strong growth. It is this growth that we want to own. The U.S. Federal Reserve has printed a significant amount of new money in the last two years. Our dollars are now worth less than in the past, since there are more of them floating around the world. Interest rates on investments

will rise some, but not enough for us to earn more wealth through fixed income. Fixed income, like municipal bonds, will continue to be an important portfolio balancing tool, but wealth is going to be earned through ownership. Ownership of companies that add value to a raw material, a thing, a process or a service. This is a time to own. This is a time for simplicity in ownership, possibly with companies that pay dividends. No credit default swaps, collateralized debt obligations, management incentive awards, collateralized mortgage obligations, or other derivatives allowed.

While Europe continues with its struggles, bailing out some of its EU Partners, and Japan continues to struggle with energy shortages, pollution and business disruption, here in the USA we are continuing a trend that has been fun and profitable to participate in as an investor. The trend is of earnings announcements that continue to surprise analysts. This may be the last quarterly report where we cover this topic since I feel I may be boring our readers. But here it is: For the fourth quarter in a row, a majority of the companies we follow with keen interest reported earnings that exceeded the analysts' expectations. This gets harder to do as time goes on and the analyst probably gets a better handle on the company and how it is progressing. It's also hard for the companies to do, as there is always the ebb and flow of business growth successes. Over the past four quarters our list of followed stocks has grown and shrunk as companies are added to or subtracted from our universe, but I find it fascinating that two years into this recovery 58% of these companies are still beating expectations. Additionally, many of the national brokerages that follow these companies are raising their price targets and outlook on these same stocks. I've listed just a few of the dozens of updated expectations:

- 6/28/2011 Jefferies raised the price target for Dupont to \$64.00
- 6/28/2011 Key Bank raised the price target for Esterline to \$94.00
- 6/28/2011 Piper Jaffray raised the price target for Johnson Controls to \$51.00

Earnings growth is the key to earning wealth through ownership. Many of these companies are also paying sizable dividends to shareholders to enjoy while they are owners.

Switching focus to some light housekeeping, here are two notable items.

- If you use the ACH Money Movement System, please let us know when you change banks or account numbers. Keeping the information updated will mean smooth transactions. Keep in mind Tim's saying: "Slow is smooth, and smooth is fast."



Jim Lara Tim Kris Mike  
Can you hear us now?

- We are very excited that Kris Hansen has joined us as our Investor Support person. Kris has five years of experience in this role at a national brokerage firm. Please say Hi to her the next time you call or email [khansen@cairinvestment.com](mailto:khansen@cairinvestment.com)

Happy Trails,

Jim Parr, Principal  
Cairn Investment Group

Company Name	Q3 Est	2010 Actual	Company Name	Q4 Est	2010 Actual	Company Name	Q1 Est	2011 Actual	Company Name	Q2 Est	2011 Actual
<b>Missed Expectations</b>			<b>Missed Expectations</b>			<b>Missed Expectations</b>			<b>Missed Expectations</b>		
Bristol Myers Squibb Co.	\$ 0.55	\$ 0.53	Chevron Corp.	\$ 2.15	\$ 1.87	Alliant Energy	\$ 0.56	\$ 0.43	Conoco Phillips	\$ 1.97	\$ 1.82
ConAgra Foods, Inc.	\$ 0.40	\$ 0.34	Clorox Co.	\$ 1.14	\$ 0.98	CentruyLink, Inc.	\$ 0.77	\$ 0.76	Clorox Co.	\$ 1.04	\$ 1.02
Johnson & Johnson	\$ 1.24	\$ 1.21	Emerson Electric Co.	\$ 0.76	\$ 0.75	Emerson Electric Co.	\$ 0.65	\$ 0.63	ConAgra Foods, Inc.	\$ 0.48	\$ 0.47
Medtronic, Inc.	\$ 0.81	\$ 0.80	Greenbrier Companies	\$ (0.09)	\$ (0.15)	Leggett & Platt, Inc.	\$ 0.23	\$ 0.21	Emerson Electric Co.	\$ 0.74	\$ 0.73
Precision Castparts Corp.	\$ 1.71	\$ 1.65	Leggett & Platt, Inc.	\$ 0.37	\$ 0.31	Portland General Electric Co	\$ 0.39	\$ 0.34	Flir Systems, Inc.	\$ 0.36	\$ 0.32
StanCorp Financial Group, Inc.	\$ 1.24	\$ 1.04	National Presto Industries, Inc.	\$ 2.24	\$ 1.92	Sara Lee Corp.	\$ 0.25	\$ 0.24	H. J. Heinz Co.	\$ 0.72	\$ 0.69
U.S. Steel Corp.	\$ 0.63	\$ (0.17)	Sara Lee Corp.	\$ 0.18	\$ 0.13	StanCorp Financial Group	\$ 1.24	\$ 1.12	Huntington Ingalls Industries	\$ 0.96	\$ 0.92
			U.S. Steel Corp.	\$ 0.23	\$ (0.35)	Sysco Corp.	\$ 0.47	\$ 0.42	Medtronic, Inc.	\$ 0.93	\$ 0.90
						Target Corp.	\$ 1.40	\$ 1.38	Molex, Inc.	\$ 0.42	\$ 0.40
						U.S. Steel Corp.	\$ (1.12)	\$ (1.22)	National Presto Industries, Inc.	\$ 1.93	\$ 1.65
								Northwest Natural Gas Co.	\$ 1.58	\$ 1.53	
								Precision Castparts Corp.	\$ 1.91	\$ 1.87	
								Sara Lee Corp.	\$ 0.86	\$ 0.76	
								StanCorp Financial Group, Inc.	\$ 0.86	\$ 0.76	
								Telefonica SA	\$ 0.39	\$ 0.38	
								U.S. Steel Corp	\$ (0.42)	\$ (0.60)	
<b>Met Expectations</b>			<b>Met Expectations</b>			<b>Met Expectations</b>			<b>Met Expectations</b>		
Realty Income Corp.	\$ 0.46	\$ 0.46	AT&T Inc.	\$ 0.55	\$ 0.55	Bristol Myers Squibb Co.	\$ 0.47	\$ 0.47	AT&T Inc.	\$ 0.57	\$ 0.57
Starbucks Corp.	\$ 0.29	\$ 0.29	ConAgra Foods, Inc.	\$ 0.45	\$ 0.45	Consolidated Edison, Inc.	\$ 0.69	\$ 0.69	Greenbrier Companies	\$ (0.02)	\$ (0.02)
Sysco Corp.	\$ 0.57	\$ 0.57	Sysco Corp.	\$ 0.51	\$ 0.51	Flir Systems, Inc.	\$ 0.43	\$ 0.43	Starbucks Corp.	\$ 0.34	\$ 0.34
Target Corp.	\$ 0.92	\$ 0.92	Target Corp.	\$ 0.68	\$ 0.68	Johnson & Johnson	\$ 1.03	\$ 1.03	ST MicroElectronics N.V.	\$ 0.20	\$ 0.20
						National Presto Industries	\$ 3.23	\$ 3.23			
						Precision Castparts Corp.	\$ 1.80	\$ 1.80			
						ST MicroElectronics N.V.	\$ 0.24	\$ 0.24			
<b>Beat Expectations</b>			<b>Beat Expectations</b>			<b>Beat Expectations</b>			<b>Beat Expectations</b>		
Abbott Laboratories	\$ 1.00	\$ 1.01	Abbott Laboratories	\$ 1.04	\$ 1.05	Abbott Laboratories	\$ 1.29	\$ 1.30	Abbott Laboratories	\$ 0.90	\$ 0.91
AT&T Inc.	\$ 0.57	\$ 0.61	Bristol Myers Squibb Co.	\$ 0.53	\$ 0.59	AT&T Inc.	\$ 0.54	\$ 0.55	Alliant Energy	\$ 0.52	\$ 0.68
CenturyLink, Inc.	\$ 0.85	\$ 0.88	CenturyLink, Inc.	\$ 0.80	\$ 0.83	Chevron Corp.	\$ 2.32	\$ 2.64	Avista Corp.	\$ 0.64	\$ 0.73
Chevron Corp.	\$ 2.44	\$ 2.70	Cisco Systems, Inc.	\$ 0.40	\$ 0.42	Cisco Systems, Inc.	\$ 0.35	\$ 0.37	Bristol Myers Squibb Co.	\$ 0.53	\$ 0.58
Cisco Systems, Inc.	\$ 0.42	\$ 0.43	Consolidated Edison, Inc.	\$ 1.22	\$ 1.24	Clorox Company	\$ 0.46	\$ 0.68	CenturyLink, Inc.	\$ 0.70	\$ 0.76
Clorox Co.	\$ 1.20	\$ 1.20	E.I. du Pont de Numours & Co.	\$ 0.33	\$ 0.40	ConAgra Foods, Inc.	\$ 0.47	\$ 0.50	Chevron Corp.	\$ 3.00	\$ 3.09
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	Cisco Systems, Inc.	\$ 0.37	\$ 0.42
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	Consolidated Edison, Inc.	\$ 1.01	\$ 1.07
Emerson Electric Co.	\$ 0.67	\$ 0.78	General Electric Co.	\$ 0.27	\$ 0.29	Esterline Technologies Corp.	\$ 0.65	\$ 0.97	E.I. du Pont de Numours & Co.	\$ 1.36	\$ 1.52
Esterline Technologies Corp.	\$ 1.15	\$ 1.30	H.J. Heinz Co.	\$ 0.73	\$ 0.78	General Electric Co.	\$ 0.32	\$ 0.36	Eli Lilly & Co.	\$ 1.16	\$ 1.24
Flir Systems, Inc.	\$ 0.36	\$ 0.37	Johnson & Johnson	\$ 1.15	\$ 1.23	Greenbrier Companies	\$ (0.15)	\$ (0.11)	Esterline Technologies Corp.	\$ 1.10	\$ 1.47
General Electric Co.	\$ 0.27	\$ 0.30	Medtronic, Inc.	\$ 0.81	\$ 0.82	H.J. Heinz Co.	\$ 0.80	\$ 0.85	General Electric Co.	\$ 0.28	\$ 0.31
Greenbrier Companies	\$ (0.02)	\$ 0.23	Merck & Co., Inc.	\$ 0.82	\$ 0.85	Medtronic, Inc.	\$ 0.83	\$ 0.86	International Paper Co.	\$ 0.59	\$ 0.78
H.J. Heinz Co.	\$ 0.72	\$ 0.75	Nordstrom, Inc.	\$ 0.49	\$ 0.53	Merck & Co., Inc.	\$ 0.84	\$ 0.88	Johnson Controls, Inc.	\$ 0.55	\$ 0.56
Merck & Co., Inc.	\$ 0.83	\$ 0.86	Northrup Gruman Corp.	\$ 1.46	\$ 1.64	Molex, Inc.	\$ 0.42	\$ 0.45	Johnson & Johnson	\$ 1.26	\$ 1.35
National Presto Industries, Inc.	\$ 1.84	\$ 2.18	Pfizer, Inc.	\$ 0.51	\$ 0.54	Nordstrom, Inc.	\$ 1.00	\$ 1.04	Leggett & Platt, Inc.	\$ 0.22	\$ 0.30
Nordstrom, Inc.	\$ 0.65	\$ 0.66	Portland General Electric Co.	\$ 0.45	\$ 0.65	Northrup Gruman Corp.	\$ 1.00	\$ 1.27	Merck & Co., Inc.	\$ 0.84	\$ 0.92
Northrup Gruman Corp.	\$ 2.19	\$ 2.34	Precision Castparts Corp.	\$ 1.68	\$ 1.70	Pfizer, Inc.	\$ 0.46	\$ 0.47	Nordstrom, Inc.	\$ 0.66	\$ 0.69
Pfizer, Inc.	\$ 0.53	\$ 0.62	SanDisk Corp.	\$ 1.05	\$ 1.34	SanDisk Corp.	\$ 1.08	\$ 1.27	Northrup Gruman Corp.	\$ 1.56	\$ 1.67
Portland General Electric Co.	\$ 0.29	\$ 0.32	Sigma-Aldrich Corp.	\$ 0.73	\$ 0.76	Sigma-Aldrich Corp.	\$ 0.79	\$ 0.83	Pfizer, Inc.	\$ 0.58	\$ 0.60
SanDisk Corp.	\$ 0.89	\$ 1.08	StanCorp Financial Group, Inc.	\$ 1.21	\$ 1.39	Starbucks Corp.	\$ 0.39	\$ 0.45	Portland General Electric Co.	\$ 0.56	\$ 0.93
Sara Lee Corp.	\$ 0.25	\$ 0.28	Starbucks Corp.	\$ 0.32	\$ 0.37	Telefonica SA	\$ 2.24	\$ 2.25	SanDisk Corp.	\$ 1.00	\$ 1.03
Sigma-Aldrich Corp.	\$ 0.78	\$ 0.81	U.S. Bancorp	\$ 0.43	\$ 0.45	U.S. Bancorp	\$ 0.46	\$ 0.49	Sigma-Aldrich Corp.	\$ 0.89	\$ 0.97
U.S. Bancorp	\$ 0.38	\$ 0.45						Sysco Corp.	\$ 0.41	\$ 0.44	
								Target Corp.	\$ 0.94	\$ 0.99	
								Tractor Supply Co.	\$ 0.16	\$ 0.24	
								U.S. Bancorp	\$ 0.49	\$ 0.52	
								Weyerhaeuser Co.	\$ 0.14	\$ 0.18	