

Inside This Edition:

- High School Field Trip
- Market Commentary
- Ownership Is Key
- Household Summary
- Account Reports

Important Reminders:

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

121 SW Morrison Street
Suite 1060
Portland, Oregon 97204
Phone: 503.241.4901
Fax: 503.241.5699
E-mail: info@cairninvestment.com

Greetings From The Northwest.

I'm a bit slow getting this letter written and the household quarterly reports delivered. I've been playing hooky, but in this case, it's been to school. I've just returned from a fun, multiple day, high school field trip circumnavigating and studying the Mt. St. Helens Volcano. The 30 plus high school junior and seniors were a kick to spend time with. There was no cell phone service, hence a lot more conversation.

In our last quarterly newsletter I wrote, "This past quarter has been notable for unsettling volatility." Well, the markets not only continued their volatile movements during the third quarter but added vigor, creating quite a lot of angst in investors' guts.

Little of the news is particularly different this past quarter.

- Concerns over Greece and the "PIIGS" (Portugal, Ireland, Italy, Greece and Spain).
- Economic uncertainty locally and globally.
- Weak jobs picture.
- The inability of our elected leaders to put aside party politics.
- Noisy news: "The Dow sank 12%" - "The Dow jumped."
- Housing surplus shrinking slowly.
- "Banks won't loan."
- U.S. Treasuries lost their AAA rating (apparently it didn't matter - nobody cared).
- "Operation Twist" launched by Fed Chairman Ben Bernanke.



Jim with Heidi the Cairn, on top of Rendezvous Mountain, Jackson Hole, Wyoming

Most of these topics are true issues that continue to weigh heavily on our minds and our investments. But wait! A slew of positive things are happening, and they are reinvigorating our local, national, and global economies, albeit at a snail's pace.

- Oil, which recently touched lower prices at \$75/ bbl, is economically stimulative. Just as oil at \$115/bbl is economically slowing.
- Mortgage interest rates are low. One of our investors recently refinanced a home at 3.25% for 15 years.
- Real estate is considerably cheaper. If you don't have some, or would like some more, now is likely the time.

- Skilled labor is available and cheaper than 2 – 4 years ago.
- Lower U.S. dollar valuations. Not so great if you are buying a coffee in Zurich, but good for our stateside manufacturers who are exporting all sorts of products.
- Projected holiday sales are up 5% for this year and that's on top of a 7% gain last year.
- Negativism is at a high level, and yet Costco, Tractor Supply and Starbucks, all consumer non-durable companies, are turning in positive records of all types.

The S&P 500 is trading at an average price to earnings ratio (P/E) of around 11. This is compared to a more normal P/E ratio of 17 to 18. I believe we are at the greatest magnitude of misvaluation since March of 2009. This is a time to own, not loan. As Warren Buffet said: "Bad news is an investor's best friend. It lets you buy a slice of America's future at a marked down price." Looking ahead, I see continued slow growth; we will likely finish up the year with a Gross Domestic Product (GDP) number at about 1.3%. Positive, but not thrilling. As companies continue to refrain from hiring, I expect that corporate spending on equipment and technology will grow at a faster pace of 5 – 8%. I see enough positive signals and momentum in the U.S. economy to conclude that a double dip recession can be avoided.

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

We have reformatted the household summary graph and table to reflect the last nine months so it matches the same time period as the separate portfolios. I suspect that after December 31 this year, we will go forward with a rolling 12 month graph.

Many of you have had an opportunity to meet Kris Hansen at our front desk. Don't hesitate to contact Kris whenever you have a change of address, email, phone, work, or bank account numbers.



Austin and Tygh Parr built this Cairn on Mt. Adams, July 2011

We have recently received a number of referrals, for which we are very grateful. Referrals are the greatest compliment, we truly appreciate them.

As always, thank you for your support of our efforts.

Happy Trails,

A handwritten signature in black ink, appearing to read "Jim".

Jim Parr, Principal
Cairn Investment Group, Inc.