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Important Reminders:

- **Annual Privacy Notice Enclosed**
- **If You Use The ACH System, Please Update Us When Bank Account Changes Occur**

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Greetings From The Northwest.

The warm weather we've hoped for has arrived. The trees are dense with spring growth and heavy, lush, eye-relaxing green.

The summer doldrums have hit the slowly recovering jobs scene with a force that is hard to endure on a hot day. June's modest employment increase of 80,000 new jobs reminds us that the economy, while recovering, is not very robust. This may push the Federal Reserve to do more to aid economic growth. A stagnant unemployment number of 8.2% is not popular in anyone's camp.

Most likely this stimulus will be a continuation of low and lower borrowing rates, plus the extension of "Operation Twist." The Federal Reserve has acknowledged that it is prepared to take additional action if it does not see an improvement in the job market in the next few months.

The economic situation in Europe continues to frustrate those of us who are invested in enterprises with overseas interests. The ongoing strain on European banks seemed to be getting better as the Bank of England recently created an additional £50 billion and the European Central Bank cut its benchmark rate to a record low of 0.75%. It would appear that the poor U.S. and European employment rates have squashed the enthusiasm these bank actions created.

The focus is now back on the euro zone finance ministers, who will be meeting in Brussels as this report goes to press, to drill into the banking details of Spain, and now



A Cairn at Petra, Jordan

Photo by S. Ogle

possibly into Cyprus' bailout proposals.

As many of our long term readers know, we endeavor to stay abreast of the earnings history and potential future earnings of the companies we invest in. For the past three years, no matter what shook the financial markets, investors have been rewarded by rising corporate profits. Companies shrank, or "right sized" themselves to fit their reduced income streams. The results for investors have been good. I believe that we are about to see a change in these earnings reports that is predictable for this phase of the global economic recovery. Specifically, a growing divergence in the details contrasting differences between GAAP (Generally Accepted Accounting Principles) and the Non-GAAP reports. As of June 29, 94 companies in the S&P 500 Index have issued negative guidance versus 26 positive – the most negative period since the third quarter

2001, according to Thomson Reuters. We will be watching with interest as the details unfold over the next few quarters. I expect that we will be rewarded for continuing to try to own the best companies in any given sector.

An important component to our investing has been the dividends received by our investors. Dividends paid to shareholders have been on the rise. In fact, according to the S&P Company, these dividend increases led to a net increase of \$12 billion in dividend payments in the second quarter. The rise helped set what is believed to be a record total dollar amount of dividend payouts for U.S. domestic common stocks.

Depending on the results of the November election and any actions Congress takes by year end, we may pay more tax on our dividends. The current 15% dividend tax rate may nearly triple for our top tax bracket investors. Additionally, the recent Supreme Court's decision upholding the health care overhaul may result in a new tax on net investment income as well as an increase in Medicare tax on wages and self employment income.

So here we are with economics and politics tangling up our brains and emotions. As I'm fond of saying, "Don't worry, be proactive." We are being proactive by making subtle shifts in our portfolios of stocks, bonds and mutual funds to reflect the evolving investment environment.

I was fortunate to skip out of town for the Independence Day week. Upon my return I noted several news items that gave me confidence that we are on the recovery path.

- Flir Systems lands \$45M Navy contract.
- Precision Castparts buys Klune Industries and should add to Precision's profit immediately.
- Auto sales are on a 14 million unit annual sales pace for 2012.
- Portland area home prices climb in May by 3.6%.



July 7 Barge Launch at Gunderson Marine

Photo by J. Rogers

- Real estate across the country rises by 2.0%.
- Gunderson Marine launched the AMS 250 Deck Cargo Barge on July 7. I saw several of you there. Pretty spectacular.
- And . . . Portland, Oregon was featured in the Wall Street Journal Weekend Edition July 7-8, 2012, as a "utopian symbol of the possibilities of urban living in the 21 century."

Stay in touch, and as always, thank you for investing with Cairn.

Happy Trails,

Jim Parr, Principal
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