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**Greetings From The Northwest.**

The fiscal cliff turned out to be a fiscal fizz. Congress made some progress. They didn't just kick the can down the road as they have so many times before; they nudged it down the road, and inevitably there's lots of work for them to do over the next weeks and months. What is so interesting is that the work they did at year-end placed most Americans into a new zone with new tax rules. This winter would be a great time to sit down and contemplate what these changed tax rules might mean to you, your household, and whether or not we at Cairn should be doing anything differently while we coordinate with your tax preparer. So, please be aware that there are multiple new changes, and additional information may be forthcoming as the new Congress gets underway.

Inevitably, the current low interest rate environment will continue to be a challenge. The concept of how to be invested, and how to broaden and deepen portfolios, in an environment where we are increasingly wrestling with a near zero percent interest rate, requires careful thought. This is something we are very passionate about solving for our investors. We understand that our goal is to help find ways to stay invested, to participate in the growth of the economy and the success of individual businesses. We find ourselves benefiting from ownership of companies that can appreciate in value. We also feel that it is smart to stay focused on the notion of diversification, not de-worse-ification, but diversification where we experience less volatile ownership patterns. So, don't hesitate to give us a shout as you are contemplating the New Year. We would be happy to fill you in with our latest thinking about managing portfolios in a very low or zero interest rate environment.

As I mentioned last quarter, I wanted to write a little bit more about some of the individual stocks we've been reallocating in what we generally refer to as Core, Flex and Yield portfolios. This particular quarter, we've focused on a couple of companies in the Flex portfolio. Most of our investors have

heard me on a soapbox reiterating my belief that it is important to own a company that creates a product that is difficult for somebody else to create, a product that warrants a higher dollar amount, and therefore a larger amount of profit margin, and you know that I'm constantly looking for these kinds of companies. Well, we've added a couple. Not in all of our portfolios, but in a few, and one of them is a company called Allegheny Technologies or ATI, headquartered in Pittsburgh. ATI has a presence in Oregon, up the Willamette in charming Albany, Oregon. They own what was once Teledyne Wah Chang Company. The new name is ATI Wah Chang. A large maker of specialty metals, priced at a slight premium to book value and offering a decent dividend, ATI should benefit from an upcycle in the aerospace and energy sectors.

A broadly held company in Cairn portfolios is Greenbrier. Greenbrier owns Gunderson Railcar and Barge Manufacturing, as well as the Greenbrier Railcar leasing business. Last quarter Carl Icahn, who's quite a vigorous investor, came to town and bought a 10% stake in Greenbrier, demanded representation in the board room, and in management, and tried to push a process where he would merge his company, American Railcar, with Greenbrier. In the end, the decision was that Greenbrier would not become part of American Railcar. The stock was extremely volatile during those weeks of negotiation and continues to be very volatile. Stay tuned; we're looking forward to being at the next barge launch and are very interested in how Greenbrier and Gunderson are going to fit into rail and marine transportation going forward.

Another very fascinating development throughout 2012, and hitting a crescendo at the end of the year, were the numbers of companies that decided to declare and pay "special dividends" and "accelerated dividends," dividends in excess of what a company normally paid out, or dividends where no dividends had normally been paid. The thought was that it would be important to get some of the monies these companies had on their balance sheets back to their shareholders prior to Congress dealing with the fiscal cliff, and likely raising tax rates. The benefit to shareholders is that in many cases they have received a

fairly large amount of cash. Your Cairn portfolio reports show the estimated annual income that has been declared and paid by companies into your portfolios. They don't project the large amount of cash inflow from "special dividends" forward into 2013. We have attached, as part of this report, a chart that shows what we believe to be most of the companies that are widely held at Cairn where a "special cash dividend" was declared. These cash dividends will show up on your 1099's as they also show up in the cash flow pages of the monthly reports from the custodian. If there are any questions about these "special dividends," please give us a call.

Special Dividends			
Approx. 190 companies paid special dividends at the end of 2012			
Company	Symbol	Dividend Amount/	
		Share	
Ares Capital Corp	ARCC	\$0.05	
CNH Global N V	CNH	\$10.00	
Costco Wholesale	COST	\$7.00	
Heico Corporation	HEI	\$2.14	
McGraw Hill Companies	MHP	\$2.50	
National Presto Industries	NPK	\$5.50	
Sirius XM Radio	SIRI	\$0.05	
Whole Foods Market	WFM	\$2.00	
Accelerated Dividends			
Approx. 150 companies accelerated 2013 dividends to be paid in 2012			
Company	Symbol	Dividend Amount/	
		Share	
Caterpillar Inc	CAT	\$0.52	
Cisco Systems Inc	CSCO	\$0.14	
H.J. Heinz Co	HNZ	\$0.515	
Heico Corporation	HEI	\$0.06	
Leggett & Platt Inc	LEG	\$0.29	
Molex Inc	MOLX	\$0.22	
National Presto Industries	NPK	\$1.00	
Paychex Inc	PAYX	\$0.66	

One of the remarkable areas of growth in the latter part of 2012 was in the International equities, in particular some parts of Europe. Some of our mutual fund investors may hold a position of the Dodge & Cox fund. Dodge & Cox did an extraordinarily good job of performing in the last half of the year. Bravo! Overall, we've been very excited and pleased that your portfolios have kept up with inflation, kept up with the levels of taxation, and, in many cases, kept up with the indexes, particularly since most of our investors are not 100% in equities, but in a blend of equities, fixed income, and hopefully something that is subtly reflecting their long term investment goals.

We, the five of us at Cairn, have enjoyed a year of quiet stability. The stability has not been coming from the news sources, or governments, but it's been the stability of having the same folks on board for quite a long time. People have come to rely on our staff and our capabilities, and we've now provided more than five years as a stable investment firm for people in our market area. We've enjoyed it, we intend to continue, and we look forward to staying in contact with you in 2013.

This just in: "The Biebs Gets Carded"... Oh, my gosh, just when you think the truth can't get any stranger, it's come to this. Pop star Justin Bieber is promoting a new pre-paid debit card. The card is aimed at teenagers, and has a monthly charge plus fees associated with things like ATM and cash balance inquiries, and charges for withdrawals. My golly, don't let your teens do this; just say no to the Bieb's card.

Once again, from all of us at Cairn, thank you very much for investing with us. We will go forward with enthusiasm and we'll listen and watch carefully as investment opportunities unfold before us. I want to thank you for your trust in us and let you know how much we value your business.

Happy Trails,



Jim Parr, Principal  
Cairn Investment Group, Inc.



Trail Marker on Mt. Hood