

Inside This Edition:

- **Measuring Success**
- **Expanding Economy**
- **The Next Bubble?**
- **Your Household Summary**
- **Individual Account Reports**

Important Reminders:

- **2012 IRA/SEP Contributions**
- **Cairn Investor Profile; Time To Update?**
- **ADV Firm Brochure Available Online Or By Request. Material Changes Summary Enclosed**

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Greetings from the Northwest.

We win!

Maybe that's all that needs to be said about the first quarter of 2013. From a "market peak" in 2007, then down to a "market trough" in 2009, to a "market high" this past quarter, investors have had a wild ride. During the first quarter of 2013 investors have enjoyed a huge success; that success is now being measured in many different ways. The most common is to measure numbers against indices. The Dow and the S&P 500 are hitting highs, and, while that sounds good, it deserves a bit of study, because while numerically the numbers match or exceed where we were in 2007, there's been a lot of rotation of companies out of those indices and new companies added to replace them. I believe at least 10 of the Dow stocks that were included in the index in 2007 are no longer in that index, and the S&P 500 has had many changes as the focus has rotated to different companies. That being said, it is true that these are higher highs and a higher high is a good thing.

We have seen companies continue to right-size themselves as they've become very responsive to their top line revenue and the profitability they're able to produce. The fourth quarter of 2012's economic numbers have been revised upwards a couple of times by the government. As that happens, economists, analysts and investors speculate that the first quarter of economic numbers for 2013, and going forward in 2013, will be positive. An expanding economy.

I believe one of the components of being a good investor is knowing that investment bubbles, or areas of unsustainable high prices, are constantly being puffed up, popped and deflated. Wealth is blown away by a sector of the economy that fails, just as another bubble is building simultaneously. We certainly understand now the decline in the housing market, we understand the struggles of the banking industry in 2007, 2008, and 2009, and we should be looking for where that next bubble is building. I have mentioned this before, and I think it's important to be aware that where people generally are heading for safety, primarily treasuries and



Photo by Dennis W.

or other "high quality" fixed-income, is probably where the next bubble is growing. We're not going to be certain until it happens. The Fed's easy money policy is creating bubbles in multiple fixed-income investment types, and we won't experience a significant change in "high quality" pricing until the Fed's policy shifts. At Cairn, we're acting in a way that we believe will move us around this next bubble. Nationally, households continued to cut debt in 2012. For example, household credit market debt, including home mortgage, consumer credit, bank and other loans, as a percentage of financial assets, dropped to 23%; that's its lowest level since the first quarter 2002. Continued deleveraging (paying off existing debt), a rebound in asset prices including homes, low interest rates, and growing incomes have all helped the household sector heal the wounds from the financial crisis.

We regularly take a look at the basic sectors of the economy: finance, technology, consumer staples, healthcare, and others. We have focused a lot of our energy in the industrial area as well as basic materials, and certainly technology communications. One of the key components we are searching for is to

own a business that can produce something that has a high profit margin. That seems simple enough, but to really be able to go out and produce a product that is difficult for somebody else to replicate, something that has a higher barrier to entry, or in the words of Warren Buffet “a wide moat,” is never simple. These are the types of companies we want to find: quality, inventiveness, the type of business that people want to buy their products from, and they are willing to pay a premium price for the best in class of that product. This has been our focus as we have labored to choose what kinds of companies to own now and into the future.

Recently you may have seen articles regarding Dell Computer, and the notion that Dell Computer may go private. The company looks at the PC business and they see a bleak future in the business environment going forward. Having been a growth company in the past, they are facing a no growth zone. My gosh, we all see the changes that are happening in the technology we touch each day, so Dell will likely become a private company. It seems that in less than two decades the internet has fundamentally altered most of what we do and how we act each day.

Southern Oregon’s Erickson Air Crane, a marvelous manufacturer of extremely sophisticated heavy lift helicopters, buys another Oregon company, Evergreen Helicopter. This broadens their business considerably. Due to the historically heavy amount of borrowing, I have generally avoided businesses in the airline industry. Who knows, this might be kind of fun. We’re watching as Erickson Air Crane’s new strategy unfolds.

W.P. Carey has gone through a large change. It is now recognized as a REIT (Real Estate Investment Trust), and is no longer an MLP (Master Limited Partnership). This should allow us to be able to see the company more clearly from an economic standpoint. Investors will be able to understand its operation more clearly and the taxes will be less difficult to report. We’re excited about these changes and are embracing the opportunity we have with W.P. Carey to own real estate projects.

One of the ongoing radical global changes has been in banking, and, of course, one of the countries in the news lately that has focused its financial foundation on banking is Cyprus. Cyprus is in the process of trying to stabilize its economy; this would be the fourth European economy needing stabilization in the eurozone. The eurozone countries that are prosperous are once again being asked to help out a country that has put together an economic structure that is not sustainable. The initial decision to impose losses (fees, fines, taxes) on insured Cypriot bank deposits, even if not

acted on, may trigger deposit outflows from neighboring countries. This is happening with a backdrop of a slower overall European recovery.

With very little movement in global growth projections in the near future, we have developed a strategy that is more of a “bottom up” focus. This is really a situation where we are focusing on best values, and that leads us back to owning companies that make things; companies with tangible assets that we can own. This has been very successful over the last few years, and I believe this will continue. As we search out these companies, we also try to focus on the countries with better growth momentum, and, lately, the United States is one of the countries that is leading the world forward economically.

I would like to close by letting everyone know that I am optimistic on the strengthening economy and its very slow progress. I am pleased to see that people are buying and selling real estate more regularly. I’m pleased to see that consumers are consuming more, and overall our economy continues to propel our investments to higher highs. Additionally, I look forward to walking to our new “Target City”, Target’s urban version of its retail stores, which is opening in a historic downtown Portland building this summer.

This is the time of year when we take a look to make sure we’ve done everything that we can to help ourselves be in the best possible tax situation. Please remember that you can make an IRA or SEP/IRA contribution up until April 15. We would really appreciate your getting those monies to us a few days earlier, by April 11, as we must have the contribution to your custodian by April 15.

As always, if you have had changes in your life that could affect the way we are investing your money or alter how we interact with you, please contact us so we can update your Investor Profile and contact information.

Additionally, many people have been enjoying participating in an HSA (Health Savings Account). Contributions to an HSA allow you to pay for health care expenses pre-tax. If your company or employer offers an HSA, I would suggest that you contribute; it certainly seems to make sense.

Thanks so much, and as always, we appreciate that you invest with Cairn Investment Group.

Happy Trails,



Jim Parr, Principal