

**Inside This Edition:**

- Life Changes
- Growing Economy
- U.S. Energy Exporter
- Household Summary
- Individual Account Reports

**Important Reminders:**

- Cairn Will Be Closed April 18 for Good Friday
- April 15 IRA Deadline
- ADV Firm Brochure Available Online or By Request. Material Changes Summary Enclosed

**Don Parr Memorial Service**  
April 17, 2014  
1:30 Beaverton Foursquare Church  
3:30 Multnomah Athletic Club Reception

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.

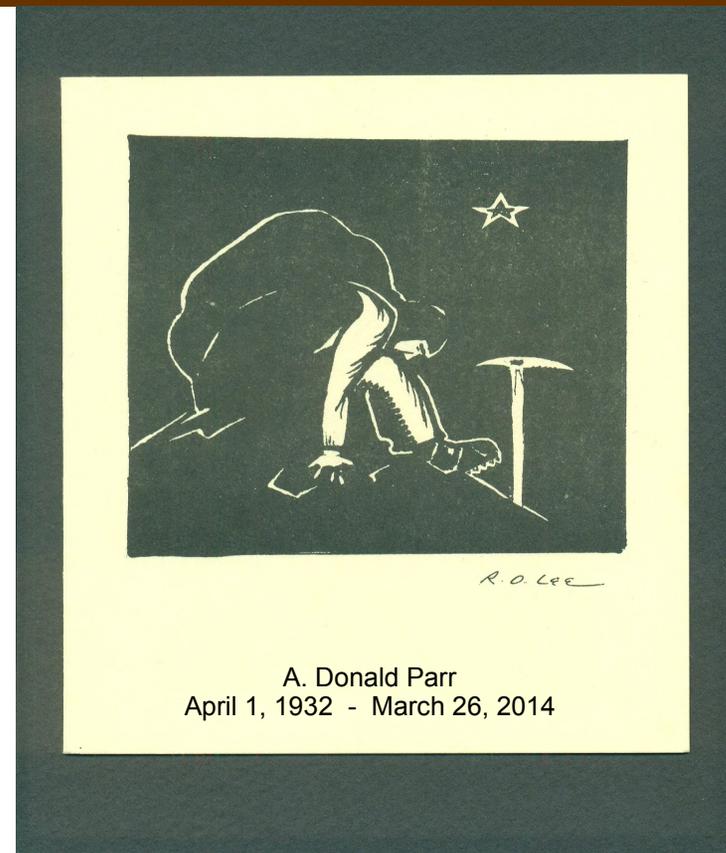
March 26, 2014 was a day that changed my life forever. My father passed away, and it has caused me to be a little slower in getting this report put together. I apologize for that, but maybe it's good to take a few moments, check out what's going on in the world, think about the temporary nature of life, and how important it is to be satisfied with what you're doing, and how you're doing it.

As we measure the passage of time, it's stunning how quickly the last five years have gone by, and how people are now looking upon the great recession as something that has come and gone. At Cairn, we generally measure the bottom of the great recession, and the low point in most portfolios, as February 9, 2009. We've passed the five year mark, and what a tremendous change we have had in our economy.

Some of the shifts in our economy are massive. Who would have thought, as the banks were crumbling, and manufacturing (particularly in automobiles) was falling apart, that in five years' time the United States would, or even could, become energy independent? The amount of growth that has taken place in our country, relative to producing energy of all sorts, has been phenomenal. The past five years have seen a vast increase in manufacturing, transportation, and many other areas supporting the energy industry boom, including housing and construction.

In the last five years, from the 2009 low point, the equity markets have produced strong returns, but the unpredictability of interest rates has continued to be baffling, and that unpredictability has caused investors, businesses, and governments to be cautious. So, while there has been a lot of money waiting on the sidelines to figure out what's happening with interest rates, industrial America has moved forward.

The railroads are strong, railroad car manufacturers are



strong. Businesses that are moving product for the energy world, whether that's crude oil or natural gas, are strong. One "big idea" is that with such an abundant surplus of natural gas we're finding new ways to pull it together in off-shore or shipboard plants for processing. There are processing ships in the design phase that when completed will be the largest ships in the world; yes, larger than aircraft carriers. Floating gas processing LNG (liquefied natural gas) facilities, capturing natural gas that might go to waste throughout North America, processing it, and delivering it around the world: it is remarkable that the United States has become an energy exporter.

As U.S. manufacturing continues to step up, there is growth across many industries, in every region of the country. It includes aviation, automobiles, chemicals, pharmaceuticals, bio-tech (although bio-tech is pulling back a little bit right now), medical equipment, ships, semi-conductors, and heavy equipment. This expansion will probably continue to increase through the end of 2014 and into 2015. I'm seeing some research showing that analysts are anticipating as much as a 3% GDP (gross domestic product) growth rate in the end of 2015 and into 2016.

The Federal Reserve's low interest rate policy may be a significant contributor to the growth of the economy. Last month Federal Reserve Chair, Janet Yellen, offered her opinion that the lead bank might start adjusting interest rates earlier than previously announced. That rattled the markets for a couple of weeks, but I would expect that the Fed is going to continue to very gently tweak its easy money policies and not make any radical change.

With the economy moving solidly, and with Fed policies still very liberal, it remains hard to bet against the ownership of equities, even at these current higher valuations. It's wonderful that the Dow and S&P are close to all time highs, but what we're really paying attention to are earnings growth and the momentum of individual companies. The U.S. economy is made up of many, many different components, and one of those components regularly focused on is manufacturing. At this time, manufacturing in the United States alone, excluding all other U.S. economic sectors, is the 10<sup>th</sup> largest economy in the world.

Russia's takeover of Crimea has probably created one of the most contentious periods between our countries since the fall of the Berlin Wall. I don't mean to make light of it, but it appears that Russia currently sees itself kind of like Rodney Dangerfield. Since the fall of the Soviet Union, they just can't get any respect. Russia, with all its vastness, has a bit of a one-dimensional economy, and it's heavily subject to the volatility of energy markets. I have a feeling that as time passes, this matter will settle into a peaceful stalemate.

We as investors understand the concept that business cycles are cyclical. Markets go up and down in cycles related to real world news on the ground. We've come to a point where I want to make sure that we're owning companies that we want to own, into and through the potential next downturn.

In particular, I'm looking for companies that have not only significant growth, but are difficult to knock out of their position. Leaders in areas that manufacture or produce things that are very difficult for somebody else to do, and generally with large profit margins.

A topic that I get asked about from time to time is the risk of the U.S. economy being negatively impacted by some of our trading partners, in particular, China. I think our trade balance with China is about 3 to 1. In other words, they don't import much of what we export. So, as China's economy weakens and growth slows, we are not at risk of China losing its appetite for U.S. goods because it has never had much of an appetite for our goods. Consequently, I don't think it will matter much.

April is always an exciting time, and no, that's not because we get to finish our taxes, but because the Berkshire Hathaway Annual Report is sent to shareholders. The first twenty-four pages of the 2013 Berkshire Hathaway Annual Report is the letter written by Warren Buffett, and it's always good to hear from Warren, and to remember some of the basics. As he said, "You don't need to be an expert in order to achieve satisfactory investment returns. But if you aren't, you must recognize your limitations and follow a course certain to work reasonably well. Keep things simple and don't swing for the fences. When promised quick profits, respond with a quick 'no.' "

My dad, as I mentioned at the beginning of this letter, just recently died. He was a real devotee of how to invest wisely over a long period of time. We will endeavor to continue in his footsteps, as well as endeavor to continue to take care of your needs, requests, and anything else that we can do to make your lives as investors, and the lives of your family members happier. Don't hesitate to call. I look forward to seeing many of you in the near future.

Happy Trails,



Jim Parr, Principal  
Cairn Investment Group, Inc.