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Greetings from the Northwest.

2014 has slipped away and we are looking at a bright, shiny 2015. I sense that this is going to be an intriguing year to be an investor. I suspect history will show that it was the year when we finally emerged from the 2008-2009 Great Recession doldrums. I believe we will see that 2015 will have further gains for those of us who "own" investments. Many of you have heard me talk about "ownership" vs. "loanership," and, while interest rates will continue to be low, with the Federal Reserve possibly increasing short rates sometime during the year, equities should turn out, as ownership generally does, as the winners in 2015. I believe this will take place even as share prices are generally at higher levels than they have been in several years. Don't forget that, at their core, the valuation of a share is really a reflection of the anticipated future results.

The end of the year was notable for several things. Not only did we see manufacturing companies like Boeing end the year with record order backlog. We also experienced a very significant change in the value of the dollar against most currencies. Amongst those things that people have been hanging up on their wall of worry has been "What in the world is going on with oil prices?" They have dropped significantly more than fifty percent, from roughly \$120.00 down to slightly less than \$50.00 per barrel. While that is wonderful for those of us who are filling up at the gasoline pump, it is not necessarily all that wonderful for the people who are in the energy business. So, as I look around the world and I see broad areas like Asia, I believe they will probably benefit significantly from lower energy costs. And that will probably allow them to expand their economies and strengthen their own industries without stoking inflation. As I look at what oil prices mean in the United States, lower energy prices are probably good for all sectors of the economy except the energy sector. The reason for that is that this drop has been so terrific that it will cause people who are in the business of exploring for, and creating, energy to slow down. And that will send ripples

through the steel industry and through all kinds of industries that have begun to build up around supporting a flow of crude oil within the North American continent. I believe that in the end this rapid decrease in oil prices will be somewhat short lived. The oil glut that people refer to has caused an overabundance at a time when supply is high and demand is a little lower. The actual percentage of the size of the glut or the daily number of surplus barrels isn't that large. And I believe that when we do get a firming price in oil, we'll see a fairly rapid return back to somewhere in the \$70.00 – \$80.00 barrel range.

Often our newsletter covers what has happened in the past. This particular time we include a terrific forecasting letter that was written by the people at Kiplinger's. With the permission of the people at Kiplinger, we share their letter with you. Please enjoy it. I hope it is informative and that certain parts of the letter ring true for you. I personally enjoy the concept of living simply and always keeping your spending well below your earnings as something that is so clearly an important part of successful investing. Additionally, a significant component of the letter is a reaffirmation that the United States is almost inevitably going to continue to be a prominent economic powerhouse and, as they say, "our success is rooted in the openness of our society and our receptivity to new ideas."

So here's to 2015! Let's have a great year and please, as always, don't hesitate to phone or, if you're in the neighborhood, stop in for a cup of joe.

Happy Trails,



Jim Parr, Principal
Cairn Investment Group, Inc.



The Kiplinger Letter

FORECASTS FOR EXECUTIVES AND INVESTORS

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Dear Grandson:

Washington, Dec. 19, 2014

A half-century ago, our clients received an unusual *Kiplinger Letter*...

Written by the editor in chief, W.M. Kiplinger, to his four grandchildren, all teenage boys (no female cousins in my generation). I was 15 in that year, 1963.

He offered us grandsons a lot of forecasts about the issues, opportunities and challenges we were likely to face in our lifetimes, plus some grandfatherly advice.

A LOOK
AHEAD

In this year of your birth...my first grandchild...I am following his example.

Perhaps your parents will save this for you to read yourself someday, when you're making your own choices. I hope that you and any siblings and cousins you might have someday...in fact, all the youth of your generation...will find it useful. (My grandfather's predictions proved generally quite accurate. I hope mine do, too.)

You're likely to live until 2090, and very possibly into the 22nd century.

The *average* life expectancy for a male born in 2014 is over 76 years; a female...81. Even today, Americans who take good care of their health are living much longer. By the time you're at the midpoint of life, medical and fitness advances will mean that a great many of your contemporaries will live well into their 90s...lots, past 100.

Dramatic changes over your lifetime...how people make a living, the mechanics of how homes and businesses operate, shifts in political power.

Technology will kill off or transform many products, services and businesses you once knew, while creating new ones. It has always been so, and always will be.

But much will be the same, due to the unchangeability of human nature.

Let's start with the *big* questions...the prospects for war and peace, national and personal self-determination, religious freedom and the like.

No world war, no nuclear holocaust, no new world-dominating tyrannies like fascism and communism in the 20th century. No devastating global pandemic. No catastrophic clash of superpowers, despite concern in the U.S., Europe and Asia over Russia's muscle flexing and China's growing economic and military might.

But never-ending smaller conflicts, waged not just with bombs and troops, but with economic weapons...cyber-espionage, trade barriers, sanctions, embargoes.

Some will be primarily territorial, fought over land seen as theirs... historically if not legally...by two or more peoples, or to claim key natural resources.

Others...a collision of modernity vs. traditionalism, secularism vs. religion. Time after time, the pendulum will swing from one ascendancy to the opposite.

The desire for individual freedom and self-determination will prevail.

In your lifetime, you'll see a world that offers more-equal treatment of women and of ethnic, racial and religious minorities. But the gains will be hard won.

Through it all, the U.S. will continue to wield enormous influence.

Its *relative* military and economic power will diminish in the coming decades, ceding a larger role to China, which will become the largest national economy.

America's power isn't based just on military and corporate might.

It's rooted in the openness of our society...our receptivity to new ideas, talent from around the world, foreign capital, even the most disruptive technology.

Plus the ingenuity of our people...and flexibility of our political system.

American values and systems will continue to be worthy models for global emulation.

What will America be like when you're an adult...say 36 years old?

One-fourth more people than today and even more urban/suburban.

A total population of about 400 million...seven out of every eight living in a metro area.

A whopping 36 million of them will call the New York or Los Angeles area home.

All told...about 40 million additional households. Although a bit smaller on average than those of today, each will need a home...whether apartment or house...and all the trappings that come with it: Furniture, appliances, insurance, utilities. Technology will, of course, change exactly what products and services are required as well as how they're provided, but the volume of what's needed will continue to grow.

When you're ready to start your family, Americans will look different, too:

Much more ethnically and racially diverse than in 2014, your birth year.

By mid-century, no single ethnicity or race will be a majority, though non-Hispanic whites will continue to be the largest U.S. racial/ethnic group.

Odds are that you won't even notice, however, because the racial and ethnic makeup of the country as a whole in 2050 will look much like the composition of your kindergarten class on your first day of school.

In general, much less racial and ethnic tension.

A more accepting, tolerant society...at least in part because more Americans will be of mixed ethnicity or race. In fact, by the time you are likely to marry (at about 30, if you're like most of your generation), one in four or five newly marrieds will be mixed pairs, compared with about one in seven couples now. Also, chances are that by then:

Many more political leaders from different backgrounds...Latino, Asian, mixed race, gay...even in the White House. And more female leaders everywhere.

Periods of extreme partisan rancor will ebb and flow over your lifetime.

When things get nasty enough, there will be a backlash...toward more cooperation.

America's two-party system will endure, with third parties cropping up now and then, catering to the nation's most liberal and most conservative voters.

More independents are likely to be elected, though...a cadre of politicians who eschew labels and owe loyalty to neither the Democrats nor the Republicans. Periods when a single party controls both Congress and the White House are likely to be short and infrequent. Voters *like* the counterweights in a divided government.

The toughest issues of your lifetime? Similar to what your young parents, the millennial generation, will grapple with as voters and activists themselves.

All will involve difficult trade-offs between costs and benefits:

Personal privacy vs. commercial convenience. National security vs. ease of commerce, travel, free speech and privacy. And many, many more thorny choices. Among them:

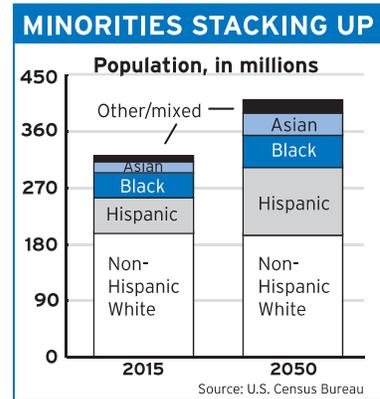
Keeping our promises to an aging America. Will you and your fellow voters trim future Social Security/Medicare benefits...or accept higher taxes on yourselves?

Immigration. Given America's low birthrate, how many more foreign workers will you willingly accept to keep our economy growing, and how will you regulate this?

Increasing income inequality. Will you accept this trend as unavoidable, or tell government, with your votes, to fight it with income redistribution policies?

Environmental protection. How much cost and regulation of your life...your choices in fuels, transportation, housing and food...will you accept in exchange for cleaner air, water and, maybe, more-stable global weather and temperatures?

Your ultimate choice: Bigger government or greater personal freedom.



Now, what about your prospects for careers and earnings?

There's a lot of anxiety today...fear of downward mobility for the generation of young adults that includes your parents, aunts and uncles. There's great worry that they will be the first generation in U.S. history to live less well than their parents.

I think it's an unfounded fear...for both your parents and, much later, you and your generation. Yes, some won't fare well, especially those with limited skills in jobs that are most vulnerable to overseas competition and automation at home.

Those of you who prepare well for tomorrow's jobs will do just fine.

Your future is largely in your own hands: The choices you and your parents make for you...what you study, how diligently you apply yourself, the sacrifices that your family makes for your future success. Watch how Asian-Americans do this. Their kids aren't any smarter than others, but they sure do study a lot more, and they tend to major in the sciences, math, engineering and other tough fields.

College will still be very expensive, but the rate of cost hikes will decline from recent highs toward the inflation rate, and more states will sweeten their help for middle-income students at community colleges and at four-year institutions.

The earnings boost from a college degree, already substantial, will grow over the years as more jobs require a degree, whether actually necessary or not.

Also, vocational education will make a comeback, focusing on skilled jobs in automated manufacturing, health, machinery repair and the building trades.

The greatest job growth? In knowledge-based fields like biotech, accounting, finance, cybersecurity, health care and Web design. But basic manufacturing, government and retailing will see their shares of total employment flatten and fall.

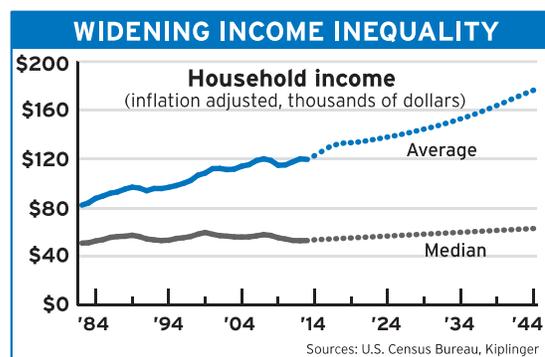
Business will be truly global, so you and your peers will be more likely than your parents are to work overseas at one point or another in your careers.

Languages will help you as well.

A good choice: Chinese. But English will still be the lingua franca of business around the world, spoiling us Americans.

You'll change jobs a lot more often than your parents ever did...careers, too... out of necessity or just for a fresh start.

Self-employment is more likely... an entrepreneur or a contractor. Either way, without both employer control and benefits.



Bottom line on your generation's earnings: They will exceed your parents', on average, with great variations, depending on one's education and career choice.

Median household income, in today's dollars, will climb about 17% by 2044, when you are 30 years old...from today's \$53,700 to about \$63,000. Biggest factor: Rising productivity, enabling employers to pay workers more without raising prices.

True, it's just a continuation of weak income gains in recent decades.

But it is growth, not the decline some economists today are predicting.

The figure for average household income will grow much more...44% by 2044.

Why? Because faster gains for high-incomers will skew the average to the upside. The earnings from executive and professional jobs...in addition to rents, interest and dividends...will let them enjoy an expanding share of national income.

This income inequality is likely to increase in your lifetime. Many causes: The star system in executive compensation (just as in sports and entertainment), strong asset values and a growing tendency of high-earning professionals to marry each other, concentrating more income in fewer households. (No remedy for *that*.)

Now turn to some of the other amazing changes you'll see over your lifetime.

Medical advances. The ability to fix genetic defects...faulty single genes, causing diseases such as cystic fibrosis, and complex flaws that trigger Alzheimer's, heart disease and more. Enabling bodies to regenerate or repair damaged organs and even limbs. A cure and vaccine for HIV/AIDS. Making cancers chronic, not fatal. Neurotechnologies to help people with autism, epilepsy, Parkinson's, strokes, traumatic brain and spinal injuries and more. No cure for the common cold, though. And new scourges will plague humankind, but we'll get a handle on them faster.

Completely driverless cars...small, energy efficient, podlike vehicles.

And pilotless planes. But no personal jet packs or flying cars...their use of energy will remain too great. Same reason suborbital flight will remain a novelty.

Quantum computers, using atomic particle transistors and photonic chips that transmit information, controlled mainly by gestures and speech. Processors and robots with very humanlike intelligence and emotional depth and range. Wearable devices that can warn of an impending heart attack, anticipate your wants and needs or automatically provide info on what you're seeing. In your later years... devices that seamlessly interface with your brain, augmenting memory and cognition.

Wearable, work-everywhere telecommunications devices...never unplugged. Lifelike 3-D holograms so you can visit "in person" with someone a continent away.

Drones all over, making deliveries, acting as guides, guardians and more. Some flying at human level...encased in a soft, flexible sphere the size of a soccer ball.

And more focus on experiences...travel, nature adventures, cooking lessons, volunteering. Less emphasis on acquiring things...big homes, cars, consumer stuff.

Finally, some advice for you, my grandson, which won't make sense to you until you're older...choosing a college major, a career, establishing financial habits.

Set goals that stretch you. Take the tougher high school and college courses and acquire skills that others won't have, making you more valuable in the workplace. (But it's OK to go into French lit...if you accept the lower earnings it will yield you.)

Be a lifelong learner, developing new aptitudes, skills and knowledge... not just for career advancement, but to enrich your life and that of your family.

Don't be afraid to change course in your career in response to changes in the economy, the prospects for your original field or just your shifting interests.

Follow your dream...but temper your passion with some pragmatism.

Get involved in your community...local, national, global. Give of your time, talent, ideas and money to improve the world you'll be living in. It's the right thing to do, and you can make a positive change in the lives of others. (It also feels good.)

Live simply. Always keep your spending well below your earnings...investing for a secure financial future, building funds for special projects, sharing your wealth. I observed these traits in my grandfather's life, and now I pass them along to you.

Try to be optimistic, even when things go wrong, as they will at times. Be confident, calm, focused and analytical...and work hard to achieve your goals.

With affection and best wishes,

Happy Holidays
Dec. 19, 2014


Knight A. Kiplinger

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