



Newsletter and Quarterly Update

March 2016

ADV Firm Brochure Available Online or By Request**Inside This Edition:**

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Important Dates:

- **NYSE Closed Memorial Day 5.30.2016**
- No Checks/Deposits**
- No Settlement**
- **April 18 IRA Deadline**



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Greetings from the Northwest.

At the end of last week I got one of those phone calls that parents get from time to time and wish we didn't. Youngest son, attending Oregon State University, had a bike-on-bike collision that caused him to be jettisoned to the ground with a separated shoulder. Looks like it is recoverable, 10 weeks with his left arm immobilized in a brace and that just happens to coincide with the length of the school term. What it meant for me was that I had an opportunity to hop in the car and drive through a portion of the state that has erupted in spectacular spring beauty. Yes, there are lambs out, and thousands, millions of beautiful cherry blossoms drifting down from the trees, as they're being pushed over by the bright green unrolling leaves across so much of the mid-valley. Absolutely gorgeous, and wonderful to get out of town and leave the very brisk pace of activity in Portland, for a slightly slower pace in Corvallis. (Little known factoid: Corvallis is the seventh best town to retire to in the USA.)

One of the most impressive aspects of the Willamette Valley is the amount of energy that is spinning up into the burgeoning wine region of Northwest Oregon. Oregon now has 453 wineries, making us the third largest wine producer in the country. Almost as impressive as the supercharged pace of construction and expansion in the Portland Metropolitan area. Most of the taller building construction is being done using traditional methods, but some projects are seeking new heights of wood construction. A proposed 12 story building in Portland's Pearl District will rely on cross-laminated timber (CLT) technology. One of the appeals of wood is a lower carbon footprint. Green means grown in America.

Oftentimes in these letters I have a chance to update you on our evolving wall of worry, and to talk about a particular trend in the economy. But as time goes by I'd like to give Patrick an opportunity to address more of those issues with you. So Patrick is going to step up and expand on his thoughts, as he has been looking vigorously at the economy and individual companies over the last quarter. This in turn will give me a chance to focus on a topic I've been puzzling over. That is the question of whether or not we, as your investment advisor, are communicating with you in a way that is most appropriate. I don't know how valid it is for you to get a letter from us once a quarter, say-



R. Casillo

ing this or saying that. I'd really like to make sure that we satisfy our regulatory requirements and provide you with clear, understandable communication: making sure we stay in contact with you, making sure we're keeping you informed as to the condition and quality of your investments, and yet at the same time delivering information or a message to you that is intriguing, appropriate, and timely. So I'm asking for some help. If you have a moment and you would be willing to take that moment to phone, email, write, stop by, or whatever might seem appropriate, we'd like you to let us know how we might act differently, or the same, in order to continue to bring to you information that seems relevant and timely, not just redundant.

Tim and I opened Cairn Investment Group nearly 8 years ago. We have some great people here and have had terrific, consistent progress through the very scary great recession, and the confusing recent oil price crash. As I said, I'm delighted that we're here, delighted we're able to be helpful to people and I would be delighted a third time to get some feedback from you about what it is that we are doing and how we are getting that information to you. Thanks a bunch, and we'll be in contact soon.

Patrick Mason, CFP :: Investment Analyst

Financial markets treated investors to a roller coaster ride during the first quarter, but clients endured and major U.S. stock indices finished the quarter pretty much where they began the



year. One could have turned off the TV and gone to sleep, not listened to any financial pundits or read the news, to awake on April 1st to find that little had changed during the last three months (but don't worry, we didn't go to sleep for three months here at Cairn). This scenario illustrates that constantly listening to talking heads and reading headlines can have little impact on what actually happens at the end of the day, other than adding unwelcome thrill or possibly a headache from the ride. The S&P 500 ended the quarter up 1.3% while small-cap stocks ended -1.9%. Outside the U.S. things were also a mixed bag, with developed international stocks -3.7% and emerging market stocks returning 6.3%. That emerging market equities led the way during the quarter can be mostly attributed to low starting valuations, combined with a retreat in the U.S. dollar strength, which benefits many emerging economies.

Now, just because market returns were rather muted during the quarter doesn't mean there weren't opportunities to take advantage of. With the stabilization in energy prices we witnessed a sharp rebound in cyclical names (industrials and materials in particular) that had fallen out of favor with investors over the last year. This rebound benefited many names in our portfolios that have revenues linked to commodity markets, and also allowed us to strategically add to companies at lower prices as investor sentiment had become too negative in cyclical sectors.

Themes for the Rest of the Year

As the first quarter came to a close, there are a few themes that we believe will shape the rest of the year and things we will be paying very close attention to as we make changes to your portfolios:

- How will company margins (profitability) hold up with global growth being lower than normal?
- ◊ With corporate earnings quality and margin growth slowing we will continue to focus on high quality companies that can sustain profits and cash flows.
- How will U.S. dollar strength continue to affect company profits?
- ◊ Central bank actions continue to affect global exchange rates, making profits for multinational companies volatile. We believe that firms that have been most affected by a strong U.S. dollar could be an opportunity if exchange rates stabilize.
- How will global monetary policy affect investor sentiment and risk?
- ◊ Opposing monetary policies are taking place between the major central banks (U.S., EU and Japan). The U.S. has begun a monetary tightening cycle, while both the EU and Japan are aggressively easing their respective monetary conditions via asset purchases and negative deposit rates. This adds risk to financial markets as the chance for error by one of these institutions increases.
- ◊ We are focusing on firms with strong balance sheets that can fund operations via cash flows over debt financing.

- Are we witnessing a recovery in commodity prices or will there be continued stagnation?
- ◊ Oil prices in particular have stabilized during the quarter, which could slow the need for oil companies to continue to cut capital expenditures.
- ◊ We continue to focus heavily on balance sheet strength and valuations as a way to continue gaining exposure to energy related sectors.

We feel these are the main themes, opportunities, and potential risks that are present as the year moves forward (but we are also aware that others may materialize) and those themes, opportunities, and potential risks are on our minds as we continue monitoring existing companies and looking for new portfolio additions with available cash. The heightened volatility over the last year has created some investing opportunities that we have taken advantage of but we must not lose sight of potential risks. Though we have muted expectations for broad market returns at these price levels, we continue to find opportunities in individual companies based on rigorous security analysis. We will continue to weigh both the potential rewards and risks as we carefully manage your wealth in the months and years ahead.

Brie Valant :: Investor Services Manager

From my seat in the Investor Services area, I have three topics to cover: First, each year our firm is required by the regulators to update our ADV (which is SEC speak for Firm Brochure) and offer it to our investors. If anyone would like a copy please contact me and I will deliver it to you electronically or by snail mail. Additionally, it is posted on our website.

Second, when you became an investor with Cairn Investment Group you filled out an Investor Profile. These are important to keep updated, so, again, if there have been changes in your lives that should be incorporated into the work we do for you, please contact me and I will provide you with a fresh Investor profile.

Third, for anybody still intending to make a 2015 IRA contribution, checks must be received by the 15th! It will still need to be overnighted to the custodian by April 18, Tax Day 2016.

Thank you, Patrick and Brie.

Happy Trails,

Jim Parr, Principal
Cairn Investment Group, Inc.



Trilliums