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Greetings from the Northwest.

It is cherry time in the northwest, especially in the Hood River Valley. Over the years I've seen the crops change in Hood River; at first the Valley was filled with apple trees, then pear trees and now cherries, blueberries, and wine grapes. During the 4th of July weekend we hauled home a big box of the flavor popping Bing cherry. They are remarkable this time of year and I wish I could send you each a big box of cherries to enjoy. We split our 25lb. box into packages for kids down at OSU, workmates here in the office and, of course, the cherries have made the rounds through the blender for smoothies and have been eaten right off the stem, handful after handful. The pits ceremoniously spat as far as you can make them go, a summer time tradition - what fun, maybe even more fun than watermelon seeds. While enjoying the Hood River Valley, I also stole a few moments to read the *Hood River News*. The paper pointed out yet another use for cherries, in particular a very sour cherry called a Kriek. This cherry and its sour flavor are the core ingredient of a new harvest time fun event in the little town of Parkdale - the KriekFest, or sour cherry beer brewers' festival. Can you have any more fun than that?

I wish I could continue talking about sunny things related to agricultural innovation and business success, but I do see down there at the end of main street that the wall of worry is popping back up with uncertainty close to the top. We haven't talked about the wall of worry too often during the last couple of years. But maybe we should, partly as a reminder of how worries tend to fix themselves and how those things we don't worry about, or can't know about, tend to push our volatility meter. Uncertainty has the most dramatic effect on our investments. We have seen our Federal Open Market Committee struggle with whether or not interest rates should be increased. While we were focused on their thoughts, another question loomed on the sidelines; will the UK stay connected to the European Union or BREXIT? I pondered long and hard about this and was quite confident that they would not choose to separate. Yet the unforeseen happened; they chose to separate, to leave the European Union. This is the sort of unexpected activity typical of shaking up market stability. Almost always it's the unexpected that gives us enhanced or increased market instability and volatility. If we can know about a problem, if we can talk about it, if we can think it through then it typically melts away. It's the unexpected events that cause us



New York Stock Exchange

Photo by: Jim Parr

some pause. Just after the announcement that the UK would separate from the EU there was a fair amount of volatility. When you go back and do the math, you can see there were a lot of S&P 500 points involved but not too much in the way of percentages. A couple of days after the BREXIT announcement, nearly all of those S&P points were back. Now we're in a period when we must look carefully at each company and study how it is evaluated by investors, and how these individual companies' businesses are doing relative to their revenues and earnings.

One challenge in our industry is gauging how companies will be viewed and valued in the future. Well, I took a look at the winners and losers of the first six months of 2016 and was surprised. The number one highest returning investment was lean hogs. We didn't do that, mainly because I wasn't sure what I might do with a railcar full of frozen lean hogs if I happened to be on the wrong side of that contract. At the bottom of the list is the very unfortunate Italian stock market. They were down 24%, lean hogs up 40%. Well, most of our investments did better than muddling around the middle and that's basically where the S&P 500 ended up for the first half of the year.

We expanded our concentration on investments that produce income, and so with middling returns we had better than average total returns. With that I'd like to again say thank you for being with Cairn Investment Group. We are going to be celebrating our own 9th anniversary in the month of July and, as I've said before, "the coffee pot is on and we'd love to have you stop by." We look forward to seeing many of you during the summer.

Let's circle back to Parkdale and the 4th of July parade and celebrations. Parkdale is going through a significant change, shedding its sleepy agricultural town persona to one that supports a brew pub, a lively grocery store, hardware store, and of course a gas station with ice. I was reflecting on the fact that I have now celebrated in one way or another sixty 4th of July holidays, which means I have been a participant in 25% of all 4th of July celebrations since the founding of our free country. We should continue to celebrate and I for one would like to celebrate the Feldkamp family and their wonderful success, Umpqua Dairy Ice Cream of Roseburg, another Oregon tradition. It's worth a stop, whether along the highway at Rice Hill or in the Thunderbird Grocery in downtown Roseburg where they have all of the flavors - all of the time. This year marks 85 years of family ownership and success with the Umpqua Dairy. Keep on going. We have lots more Independence Days to celebrate.

Patrick Mason, CFP :: Investment Analyst

The bulk of the news produced during the quarter would have you believe that equity markets around the globe were in bear market territory. Whether it was "Brexit," or the Zika virus in Brazil, or our own Federal Reserve continuing to ease off rate hikes, markets have had a lot to digest over the previous year. Yet with all these headlines the S&P 500 is within 2% of its all-time high set in May 2015 and emerging market equities have returned over 6% year-to-date.

On the fixed income front, yields have continued to move lower (prices higher) as the Fed has put the brakes on interest rate hikes, causing values of high quality and high yielding fixed income instruments to increase in value (Treasury bonds, high quality corporate, and preferred shares). The concern is that, although this has been helpful from a performance standpoint, it limits future price appreciation and increases reinvestment risk, unless yields move substantially lower. In our opinion, taking a lot of maturity (duration) risk at this point would equate with picking up nickels in front of a steamroller.

Last quarter we touched on our major themes for the year and areas where we were more cautious, so I will keep my thoughts rather brief as these themes remain intact. With Europe going through some potential big changes, the role of central banks and regulators will be of evolving interest as monetary policy continues to diverge across many developed nations. Another area of interest as we move through the second half of the year will be how individual company profits have adjusted to the stabilization in oil and the U.S. dollar. Many global companies have seen profits negatively affected by both the volatility in

energy markets and the broad strength of the U.S. dollar versus many other currencies. With oil having moved back to the upper \$40's and year-over-year changes in the U.S. dollar being rather benign compared to 2014, company management might have a more optimistic tone for profits in the coming quarters.

As the markets remained relatively range-bound over the last 18 months, we spent a great deal of time researching good companies that we want to purchase at the correct price.

The good news is there are many companies that we wish to own; however, we are having a hard time justifying the current price (valuation) at which the market is offering them. With these things in mind we will continue to remain patient and ready to take advantage of opportunities as they present themselves. As always, 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

Summer is an active time, ripe for moves, changes, and losing your phone on vacation - all actions that might require Cairn to update your contact information. So I would like to emphasize that the most effective way to update any address, email, or phone number, is to call me (as Blondie might sing). Calling me ensures that your records are accurate at Cairn, as well as your information at the custodian. If at any point you think, "Well, maybe I changed my email a year ago but I can't remember if I told Cairn," call me. I'm always happy to hear from you, to review the information that we have on file, and perhaps I can hear any summertime tales you have to tell.

Also included with your quarterly report, is our annual Privacy Notice for investors. As always, protecting private client information is of the highest priority and we work vigorously to ensure that your personal information remains safe here at Cairn.

Happy Trails,


Jim Parr, Principal

Cairn Investment Group, Inc.

