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Important Reminders

- **Annual Privacy Notice Enclosed**
- **NYSE Closed for Labor Day 9.4.2017
No Checks / Deposits
No Settlement**

Greetings from the Northwest.

It’s the July 4th weekend and I’m not where I thought I was going to be. A couple of weeks ago I was having a conversation with a fellow who mentioned he knew someone who had a tractor for sale in Spokane, WA. My wife’s family has a filbert orchard and a tractor can be a darn handy tool. Especially if it’s a lightly used, well cared for, 12 year old tractor. So here I am piloting my pickup and trailer through the Columbia River Gorge and central Washington desert. I was enjoying an ice cold Starbucks coffee when I zipped right past the State of Washington’s first commercial hemp growing operation outside of Moses Lake. Commerce is flowering in the Columbia Basin. The person I’m going to see about the tractor lives a little north of Spokane, which is nearly a 350 mile drive one way. And it’s hot. I’ve always enjoyed Spokane; over the years it’s been such a hotbed of economic activity, mining, banking, logging, farming, technology and recreation. In general it is a really interesting area to recreate in as well as to have a business. So after many hours, I pulled into a wonderful family’s farm, and after serious negotiations I loaded and hauled a new used tractor back to the Willamette Valley. These kinds of trips typically stretch a little longer because I like to meander and see interesting things along the way. I deviated from the highway route near the Tri-Cities of Pasco, Kennewick and Richland. With a pelican as my guide, I crossed over the Columbia River on the recognizable cable bridge, officially named the Ed Hendler Bridge, into downtown Kennewick.

The Fourth of July also brings an extraordinary event to Portland each year, The Blues Festival. Being there in person is of course fantastic, but this particular weekend I’ll take my jazz by radio. I always enjoy hearing Booker T play “Green Onions” and many others. The Blues Festival celebrated its 30th anniversary, and while it’s possible more Portlanders know about 30 years with the blues, we won’t forget that this is also Cairn Investment Group’s 10th anniversary. Tim and I and our team have been extraordinarily pleased to be connected to the wonderful group of investors who make up Cairn Investment Group. Over the last ten years Cairn has evolved considerably. It is exciting to see the growth in our research capacity,



Ed Hendler Bridge, Kennewick, WA

Photo by: Lara P

allowing us to dive even deeper into the valuations of our investments. Patrick will be covering the details of projects we’ve been working on the last few months. Tim is going to cover some of the components of our relationship with you.

Patrick’s Part

The broader markets continued their positive momentum during the second quarter, with US stocks rising over 3% and international stocks faring a bit better, rising over 5%. When you look underneath the hood that drove returns in large cap US stocks, the companies that have been carrying the load (Apple, Amazon, Facebook, Google) started to lose some of their luster, all suffering negative returns during the month of June. This has started to benefit active management and value-conscious strategies, as many of the names that have been carrying the broader market have risen to price levels that we

consider to be far above fair value. This brings me to my topic for this quarter: Where are valuations for the broad market? And how does our approach differ from simply investing in indices?

Many clients have voiced concern over the last year that they feel markets are “expensive” and are mostly wanting a return “of” capital more than a return “on” capital. We manage all our clients’ wealth with a “return of capital” being the building block of our philosophy while achieving a reasonable “return on capital.” We share the view with these clients that the broad US markets are above fair value. Below is a chart that maps the total market cap of US stocks measured against US GDP. This is the so-called “Buffet Indicator” and, as you can see, it has risen to historically high levels. We have talked in the past about the potential risks of index investing in the US, and this indicator shows some of the risks going forward in blindly investing in indices that are potentially filled with overvalued stocks.



Source: www.gurufocus.com

Our philosophy is built around constructing equities portfolios that demonstrate high quality companies at attractive prices, and then being patient while our thesis plays out. We continue to find attractive long term investments even as US markets reach historic highs. We have found some opportunities in the health care and consumer markets. We feel that the markets have unfairly priced-in many negative events that probably won't happen (i.e. the Amazon taking over the world effect). For patient,

research-oriented investors, like ourselves, this creates opportunities to invest in well managed companies at historically low valuations.

As Jim has said many times in the past, “We do not own the stock market.” Not owning the whole stock market when valuations are at high levels can do wonders to protect against loss when volatility rears its head again. So while the markets might be expensive, rest assured: Our goal is that your portfolios are not.

Thank you for your continued interest and, as always, feel free to reach out to me with any questions. —Patrick Mason

Tim’s Part

When you began your relationship with Cairn, one of the processes that you went through with us was to fill out and discuss an Investor Profile; it’s a document that we use to learn about you, your goals, and your attitudes about money and investments. This document is important because it leads directly to the investment choices that we make on your behalf, so it makes sense that it be accurate and up to date.

Much has changed in the world since we opened our doors ten years ago. We’ve been from economic boom to bust to a slow cooker boom again. We’ve seen three US Presidents, the advent of the iPhone, a significant re-mapping of the Portland food scene, and, of course, we’re all ten years older.

If you feel that your circumstances have changed enough to warrant a reassessment of your profile, please let us know. We welcome a chance to revisit this and learn what’s new in your life. —Tim Mosier

Come on by for a cup of hot or iced coffee when you have a moment. We’d like to show off the techniques we are applying.

Happy Trails,

Jim Parr, Principal
Cairn Investment Group, Inc.