CAIRN INVESTMENT GROUP

Newsletter and Quarterly Update

December 2019

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Important Reminders:

- NYSE Closed MLK Day 1/20/20
- NYSE Closed Presidents' Day 2/17/20
- 1099 R –Late January
- 1099 Composite –Late February
- April 15, 2020 IRA Contribution Deadline

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Greetings from the Northwest!

Those familiar words have been a hallmark of our quarterly newsletters for many years and are likely to remain our first words for years to come, gently easing our readers into whatever more serious topic that is bound to follow. Working shoulder to shoulder with Jim Parr over the better part of two decades, I've learned that people enjoy, and get comfort from, the familiar.

When Jim and I founded Cairn "way back" in 2007 we made a sincere effort to create a place where our investors, our people, could feel at home; a place where they were known, valued and thought about on a regular basis. It's my desire to continue on this same path, putting you above all other goals, and you should expect no less than this. Inevitably there will be change, but change intended only to improve our service, improve our investing and improve our overall effectiveness. If we can do this and have you, our investor, feel like nothing has changed, only improved, then we will have succeeded.

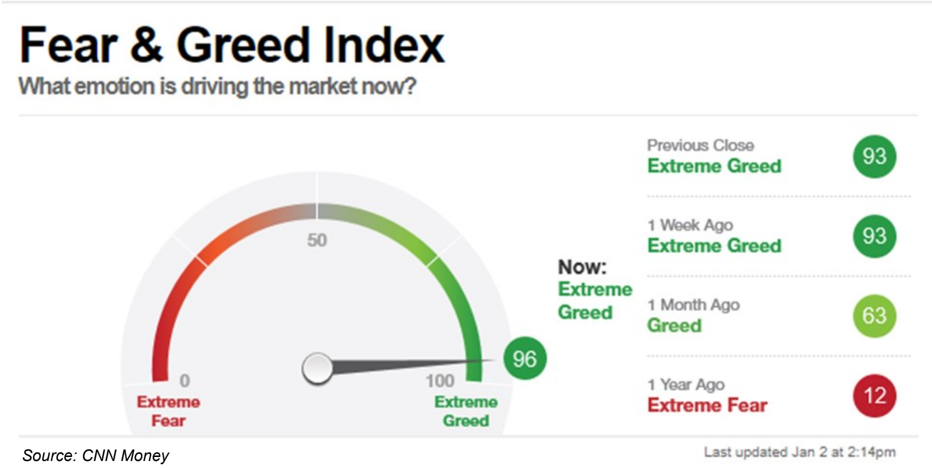
We have a great team today, I think the strongest in our 12 years here. As Jim mentioned in a prior note, Patrick Mason will be joining the ownership this year, adding a comforting layer of assurance that our methods and our mission can continue seamlessly in support of your goals. Read his message that follows, take it to heart, understand the choices that we are faced with in this complex economic and political environment, and know that you are being well served. Jesyca and Patricia put a smile on my face every day when I observe and hear the way they deal with our investors' needs, simple and complex. Of course, Lara continues to provide a solid backstop to everyone's efforts, and Jim cheers us on from his new and slightly different perspective. In the next few weeks I'll be announcing another exciting addition to our team, but more on that later!

I'll leave the serious stuff to Patrick this time around, but I do want to sincerely thank all of you for being a part of the Cairn family, and in particular those of you who give us honest feedback on your experience, as it only serves to make us better. It's my goal to revitalize our communications in 2020 to see and talk with as many of you as I can. Between the changes here, the upcoming election, and inevitable twists of the economic cycle, we should have plenty to talk about.

Hart Mountain Oregon by: Tim Mosier

Patrick's Part

Equities finished the year in a celebratory mood, with U.S. large cap and small cap stocks posting fourth quarter gains of over 9%. Developed international stocks and emerging market stocks also fared quite well, with gains of 7% and 12% respectively. Fixed income, which had been a strong performer earlier in the year, posted flat returns as interest rates moved higher on longer dated bonds. Global markets were strong in 2019 after coming under pressure the year before. Concerns about trade and economic growth were pushed aside as investors cheered the Federal Reserve's change in interest rate policy last January. As you can see by the Fear & Greed Index chart below, the majority of investors have now embraced equity market risk with little thought of the actual risk being taken.



Source: CNN Money

In fact, the 2019 S&P 500 performance can be attributed to roughly 4% earnings growth, 2% dividend yield, with the remaining 25% attributed to multiple expansion (P/E ratio moving higher). In other words, over 80% of the S&P 500 Index return was generated by investors' willingness to pay more for many years of future earnings, in the present. I think that fits the definition of greed pretty well. When valuations are already stretched, paying an even higher premium for future earnings can open investors up to experience larger losses or underwhelming gains in the future. Even with the strong performance of 2019, it would only take an 11% drop in the S&P 500 to get prices back to where they were in January of 2018. As we noted last quarter, we continue to observe softness in the current economic expansion, combined with generally high equity valuations. However, the data does not point to imminent recession and there are still opportunities for us to invest wisely. We continue to look for fundamentally sound investments selling at attractive prices, while balancing both risk and reward. As famed investor and writer Howard Marks likes to say, "Move forward with caution." We think that is pretty sound thinking in the later stages of this cycle.

Another topic of discussion this year revolves around the Secure Act and IRA distribution changes that passed into law recently. There are some major changes taking place, and we find the following two will impact the greatest number of our investors. The first involves the age at which a person must start taking their required minimum distribution. The second discusses the new parameters for beneficiaries that inherit a retirement account.

1. Prior to 2020, Required Minimum Distributions (RMD) were required from a retirement account (IRA, 401k, SEP IRA, etc.) when a person reached the age of 70½. Starting this year, retirement account owners do not have to begin taking an RMD until the year they reach 72 **(This applies only to people turning 70½ after 2019)**.

2. In the past, a non-spouse beneficiary with an inherited IRA could "stretch" out the RMD over their entire life. Going forward, the "stretch" provision is eliminated for most beneficiaries, and **the entire retirement account must be distributed in 10 years**. There are exceptions for minor children, disabled persons, and beneficiaries who are less than ten years younger than the decedent.

Estate planning issues may arise from these changes. The primary one we see is the naming of a trust as a beneficiary of an IRA. Attorneys will occasionally recommend this so that the assets are still under control of a trust while allowing the stretch provision for the RMD. Under the new law, all assets in the inherited IRA have to be distributed by the 10th year. Since there is no annual withdrawal required, the new provision could cause a large taxable distribution to the beneficiaries of the trust in the 10th year. As we meet with you over the coming year, reviewing IRA beneficiary designations will be an action item.

My last topic involves cash management within your portfolios. As interest rates have done a U-turn over the last 12 months, interest paid on cash and money market funds has continued to fall. To make sure we are earning the highest interest on your cash while we either construct a portfolio, or wait for a new opportunity, we have implemented new cash management tools. To efficiently manage your cash, we are using liquid and safe securities consisting of CDs, T-Bills, position traded money markets, and short-term Treasury Bond ETFs that earn a higher interest rate than cash. We don't want a lot of idle dollars earning very little in this challenging environment, and feel it is our job to manage your cash as effectively as possible.

Thank you for your continued trust and please drop me a line if you have any questions or additional topics you wish to discuss. —*Patrick Mason*

As always, our doors are open, the coffee is hot, and the parking is free, so please make a point to visit when you can.

Happy New Year,

Tim Mosier, Principal
Cairn Investment Group, Inc.