

GREETINGS FROM THE NORTHWEST

I can hardly believe that it's been a year since I wrote of frosty mornings and fall colors! This year it's summerlike temperatures, sunglasses, and tinder dry vegetation. I'm afraid that the eventual but certain surrender to Autumn may be more abrupt than usual.

It's been a rough investing season so far. I'm not sure I know why the stock market likes to pick the fall to make its most dramatic downside moves, but if September is a gauge, we're probably in for some more pain before the bargain shopping kicks into gear to turn things around. We've done much to protect your assets from the most painful moves, as Patrick will point out, and we'll continue to look for opportunities to reduce risk or pick up a bargain when we can. For most of you, staying the course will yield the best result, but if your needs and circumstances have changed, please let us know so that we can re-evaluate our plan.

Here's a topic that we've never really touched on before, and it has nothing to do with making you more money: In times like this it's common to allow negative sentiment to seep into our decision making and knock us out of our normal patterns in many unexpected ways. While we're all experiencing what's likely a temporary reduction in our wealth, many of the organizations that provide for those in need, protect the environment, or otherwise do the hard work that most of us cannot do ourselves, still need our help, and they often find that getting the funds to do so is a bit tougher in times like this. I suggest that we continue to remember the causes that are dear to us, even when our own fortunes may be somewhat less.

With that, I'll hand things over to Patrick, who will again school us on the numerical realities of investing.



OF NOTE

- :: Bank Holidays: October 10 and November 11. No Checks or Settlements.
- :: NYSE Closed for Thanksgiving November 24 and Early 10:00am Close November 25.
- :: NYSE Closed for Christmas December 26.



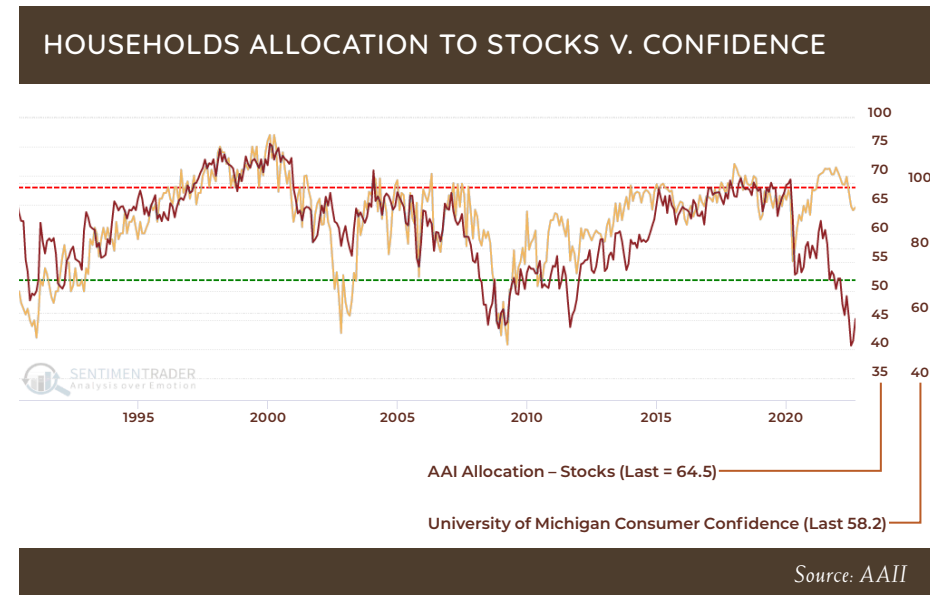
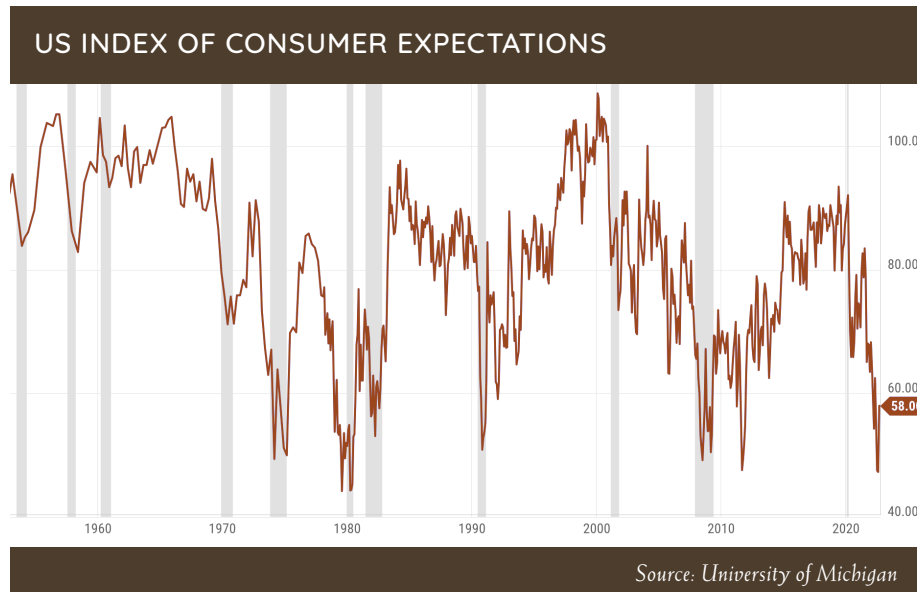
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—Tim Mosier

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It is understandable to hear investors' comments about never having seen a market environment like the one we are living through now, having never witnessed both US stocks and bonds decline for 3 quarters in a row (h/t Liz Ann Sonders). High inflation, and the Fed's response by raising interest rates at an unprecedented pace, have caused a shift in investor sentiment and risk-taking behavior across numerous asset classes. We have observed a quick reversal in how households and investors are feeling about their future, with the consumer expectations index hovering in recessionary territory.

that the Fed will always have their back, so even though pessimism is high, it seems like a fake pessimism. Although we are still in a bear market, and households are as pessimistic about the current economic environment as they have been in 30 years, very few are acting like it. The chart below shows household allocations to stocks still sitting at close to 65%, which is much higher than previous bear market lows where consumer confidence currently sits.

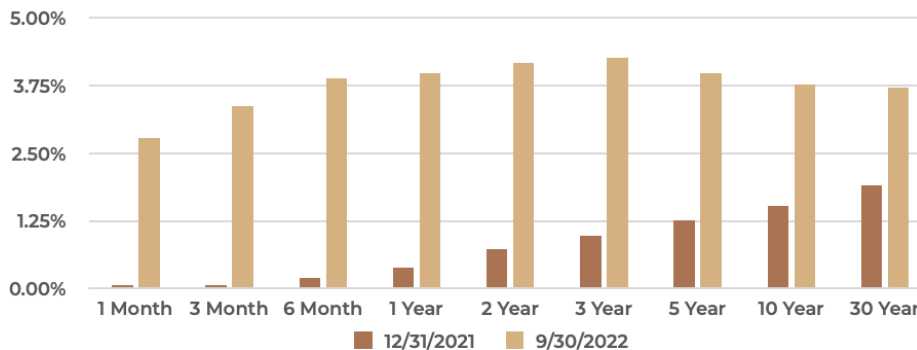


Though households are feeling pessimistic about the future, it seems like most investors have been conditioned over the years to expect

So even though valuations have come down from their extremes (though still not cheap) and sentiment is low, the fact is that household allocations to stocks remain elevated, and we haven't seen the signs of capitulation that signal that this bear market is over.

In our first quarter letter we suggested that TINA (There is No Alternative) might be a thing of the past, as interest rates were starting to move higher. I think market pundits are going to have to come up with a new acronym, now that interest rates have risen substantially this year. The chart below shows US treasury bond rates at the start of the year and what the corresponding rates are now. Needless to say, there are now compelling opportunities to earn interest in more conservative assets, which we have not seen since 2007. Another observation looking at this chart that has been caused by aggressive Fed policy is this: I don’t know how something doesn’t break with rates rising as quickly as they have across the entire yield curve. Treasury rates are the starting place for the pricing of many other financial products across capital markets (just look at the current 30-year mortgage rate of 6.70%). Time will tell if the Fed will/can remain so vigilant in fighting inflation if higher rates start to have more broad consequences across the economy and capital markets.

US TREASURY RATES 12/31/21 V. 9/30/22



We have spoken many times over the years about the risks that have been present in markets due to high valuation combined with overly optimistic sentiment. We are not seeing those risks become a reality. We have preached risk management and protecting against the full brunt of market losses when bull market cycles inevitably turn. Though portfolios are down this year, holding extra cash and focusing on attractively valued companies and asset classes have helped us not participate in the full brunt of equity market losses. In our fixed income portfolios, we have focused on high quality, shorter maturity bonds which have also held up well compared to the broader fixed income market. Even though we are still cautious in thinking that the worst is behind us, we are now finding opportunities in companies and asset classes that were not present a year ago. Having extra cash in portfolios accomplishes two important goals during this period. First, it helps protect the portfolio when both stocks and bonds are not performing well. Second, it allows us to take advantage of opportunities without having to sell other assets that might be at depressed prices. So even though we still view risk as being elevated, we have the flexibility to shift gears when the time comes. We appreciate your continued trust and are always open to discuss any topic or concern in more detail if needed. —Patrick Mason

Thanks, Patrick. If any of this feels like it needs a better explanation, please give us a call.

Happy Trails,

Tim Mosier, President, Cairn Investment Group, Inc.

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—Patrick Mason