



Mid-Quarter Newsletter

November 15, 2008

From My Corner

Jeff Mengis – President

2008 is coming to a close, and for those of us that are in the markets, it cannot end soon enough. As you are aware, the markets are significantly lower to-date due to the system wide deleveraging of our economy. While at this point, our composite average has outperformed the benchmark S&P 500 index, it is little consolation to see asset values trading at their current levels. We continue to work diligently to own strong companies that will weather this financial storm over the long-term.

The longest and most expensive election in the history of the world has finally ended. There is some debate whether an Obama presidency will raise taxes during a severe recession, but we are inclined to take him at his word. We wanted to discuss the potential impact that higher income and dividend taxes might have on your investment portfolio. A repeal of the dividend tax cut combined with an increase of the top tax bracket would likely increase demand for municipal bonds. Currently, municipal bonds are yielding about 1 percent more than treasury bonds before tax, which is unusual. The after tax yield on municipal bonds is significantly higher, and higher still if the income tax rates were to increase. At current rates, we feel municipal bonds are attractively priced relative to treasuries and may offer a good investment for some portfolios.

We will be sending your 2008 tax information along with our 4th quarter reports in January. If you have had an unusual or significant tax event, you should contact us soon. This will allow enough time to make the appropriate portfolio adjustments if necessary.

During the Holidays, we will be out of the office on Thanksgiving, Christmas and New Year's Day. The office will also close early with the markets on the day after Thanksgiving and Christmas Eve. Included in this newsletter is our Mengis Capital 2009 pocket calendar for your convenience. We hope that you enjoy your Holidays with family and friends and look forward to working with you during the New Year.

Investment Focus:



Amgen is the largest independent biotechnology company in the world. It markets drugs in the fields of hematology, oncology, and inflammation. We previously profiled Amgen in May 2006 and wanted to highlight the company once again because we feel it may be headed for another growth cycle driven by a robust product pipeline.

Amgen's advances in cellular and molecular biology have helped produce five of the world's best selling biotech drugs: Aranes/Epogen for anemia, Enbrel for rheumatoid arthritis and Neulasta/Neupogen, which stimulates the immune system. In addition to their existing products, they have a strong pipeline including Denosumab with an estimated potential market of \$5 billion by 2010. Beyond that, Amgen has 10 new drug candidates for cancer, dialysis and diabetes that are in phase 2 and 3 drug trials. The market has begun to price in the impact that democratic control will have on Medicare. Fortunately, as Amgen's product portfolio becomes more diversified, it lessens the impact of Medicare's pricing power.

The stock currently trades at approximately 15x 2008 consensus estimates of \$3.95 per share and 13.4x 2009 consensus forecasts of \$4.40 per share. With earnings projected to grow 15% over the next 5 years, we feel the stock is appealing at these PE multiples. As of September 30th, Amgen is up 27.6% year to date, which is a remarkably strong performance in this market. Despite the increase in its price, we feel Amgen's stock is still attractively valued given its growth prospects.





Investment Strategy and Goal

The *Focused Taxable Composite* seeks long term capital appreciation by investing in companies which, in MCM's judgment, offer value relative to their long term potential and the market as a whole. Using a multi-cap approach, the composite is able to invest in companies of all sizes, although most companies have market capitalization in excess of \$500 million. Our overall goal is to consistently outperform the S&P 500 index.

This information is presented as supplemental and complements the Annual Disclosure Presentation located at the bottom of this page

Top 10 Holdings (as of 09/30/08)

Qualcomm	6.0%
Amgen	5.8%
Genentech	5.3%
Intel	5.2%
Costco	5.0%
AT&T	4.9%
Cisco	4.7%
General Electric	4.5%
Du Pont	3.8%
Abbott Labs	3.5%

Data presented represents a percent of the total market value of the Focused Taxable Equity Composite, including cash. As of September 30, 2008, cash represented 10.0% of the total composite. This information is presented as supplemental and complements the Annual Disclosure Presentation located at the bottom of this page.

Performance

	Year-to-date*	3 Year**	5 Year**	Since Inception** 10/1/98
Focused Taxable Composite	-18.84%	-0.62%	7.26%	8.25%
S&P 500 Index	-19.29%	0.22%	5.17%	3.06%

* Past performance does not guarantee future results. Numbers are net of fees.

** Annualized performance figures

Mengis Capital Management, Inc., has prepared and presented this report in compliance with the Global Investment Performance Standards (GIPS®). Mengis Capital Management, Inc. is a registered investment advisor. The firm maintains a complete list and description of composites, which is available upon request. Performance prior to November 28, 2001 occurred while the portfolio manager was employed at a prior firm and was the only individual responsible for selecting the securities to buy and sell. Compliance with the Association for Investment Management and Research Performance Presentation Standards (AIMR-PPS®, the predecessor to GIPS) was verified at the prior firm, beginning February 1, 1998. As represented by management, the performance from the predecessor firm conforms to the GIPS guidelines with regard to portability of investment results. Focused Taxable Equity Composite contains fully discretionary taxable equity accounts and for comparison purposes is measured against the S&P 500 Index. Sector weightings observed in the Focused Taxable accounts vary significantly from those in the S&P 500 Index. In addition, from time to time, the Focused Taxable accounts will generally have 20-30 holdings as compared to the S&P 500 Index (composed of 500 different stocks). For certain time periods, the composite may be more concentrated than the benchmark. Due to the limited number of holdings relative to this index, the investment risks associated with concentration are significantly greater for the Focused Taxable accounts than it is for the index used for comparison. For periods shown prior to January 1, 2006, the minimum account size for this composite is \$50 thousand. Effective January 1, 2006, the minimum account size has been changed to \$150 thousand. Results are based on fully discretionary accounts under management, including those accounts no longer with the firm. At present, there are 13 accounts being managed consistent with the discipline referred to as "Focused Taxable." Mengis Capital Management, Inc. currently manages over 200 other portfolios on a discretionary basis. These portfolios are not managed according to the Focused Taxable methodology and the results in these accounts will vary, both positively and negatively, from those experienced by the Focused Taxable accounts. Information regarding the performance achieved in these accounts is available upon request. The U. S. dollar is the currency used to express performance. Returns are presented gross and net of management fees and include the reinvestment of all income. Net of fee performance was calculated using actual management fees. Prior to January 1, 2002, accounts in the composite were charged an all inclusive wrap fee. Gross returns for this period are shown as supplemental information and are stated gross of all fees and transaction costs; net returns are reduced by all actual fees incurred. The standard management fee is a maximum of 2.00% on all assets. Additional information regarding policies for calculating and reporting returns is available upon request. There has been no material change in personnel responsible for the investment management of this composite. The Focused Taxable Equity Composite was created October 1, 1998. Past performance is not indicative of future results. Investments are subject to market fluctuations and investors could lose some or all funds invested.

	Total Firm Assets (thousands)	Composite Assets		Accounts at Year End	Asset-Weighted Annual Return		S&P 500	Annual Composite Dispersion
		US Dollars (thousands)	% of Firm Assets		Gross	Net		
2007	121,952	17,970	15%	14	8.29%	7.20%	5.49%	2.5%
2006	97,596	15,637	16%	16	14.66%	13.50%	15.80%	1.1%
2005	89,242	15,206	17%	12	9.55%	8.49%	4.88%	1.1%
2004	85,368	11,016	13%	9	17.70%	16.51%	10.88%	1.2%
2003	86,803	8,414	10%	13	30.04%	28.79%	28.69%	1.1%
2002	61,896	4,072	7%	10	(24.82%)	(25.44%)	(22.10%)	2.2%
2001*	45,728	1,848	4%	8	(9.74%)	(11.16%)	(11.88%)	4.4%
2000*		1,404	2%	6	35.90%	33.49%	(9.11%)	N.A.
1999*		481	1%	5 or fewer	25.13%	22.35%	21.04%	N.A.
1998*		137	<1%	5 or fewer				

- N.A. - Information is not statistically meaningful due to an insufficient number of portfolios in the composite for the entire year. The annual composite dispersion presented is an asset-weighted standard deviation calculated for the accounts in the composite the entire year.

- *Information presented pertains to portfolios managed by the portfolio manager while affiliated with a prior firm. Their presentation conforms to AIMR-PPS guidelines (the predecessor to GIPS) regarding the portability of investment results.

- S&P 500 Index performance returns reflect gross dividends reinvested into index. S&P Index performance returns through September 30, 2001, were obtained from Bloomberg; index performance returns for periods after September 30, 2001, were calculated using data from FT Interactive Data.