



## Mid-Quarter Newsletter

February 15, 2009

### From My Corner

*Jeff Mengis – President*

**Market Comments:** The stock market experienced unprecedented volatility during the last quarter of 2008. It became commonplace for the Dow to move down 700 points one day and then up 900 the next. In fact, 21 of the 41 trading days in October and November 2008 had moves in the Dow greater than 3% up or down. These enormous moves on a daily basis are historically unusual and difficult to navigate. When markets experience such volatility, it is usually due to heightened fear and uncertainty. As a result, indiscriminate selling of equities moved all sectors lower. Hopefully, this year will provide a more hospitable environment for sector and stock specific outperformance.

There is some silver lining to this market that often gets overlooked. Companies have been adjusting their expenses in preparation of a more difficult economic climate by streamlining workforces and capital expenditures. As a result, those companies should be more efficient and better prepared to weather the challenging economy. Consumers are cutting back on spending as well. While reduced consumer spending hurts the economy in the short run, over the long-term consumers should benefit from an increased rate of saving and a lower level of debt. Finally, negative market sentiment is currently at high levels, and for good reason. However, in such a pessimistic atmosphere, a small amount of positive news can create a sudden rally in the market.

The question mark that remains is the status of our nation's financial institutions. The growth of our economy depends on a viable financial sector lending to businesses and consumers. The effects of the government's efforts to save the financial system and encourage lending will play out over the coming months. In the meantime, we are looking to own stocks with strong balance sheets, manageable levels of debt and solid cash flow. Most importantly, we want companies that will continue to grow their business and emerge from this downturn stronger than they were going into it.

### Investment Focus:



Costco Wholesale (COST) is a good example of the kind of company that we have owned for some time and want to continue to own for the long-term. They are a wholesale-membership company that many of you are probably familiar with. Costco was founded in 1983 in Seattle, WA and is still Northwest headquartered in Issaquah, WA. They have 550 stores in 8 countries, including 403 in the U.S. and 76 in Canada.

One of Costco's strengths is their management team, led by their Founder, President & CEO, James Sinegal. Mr. Sinegal has been with the company since the inception and has a strong understanding of the retail industry. Costco grew their revenues by 12.8% during 2008 in a very difficult retail environment. During the spike in the price of gasoline, they benefitted from increased store traffic as customers migrated to their wholesale gas prices. While they are seeing decreased higher margin big-ticket sales, they are enjoying a solid increase in their food sales as people are eating at home more. Through it all their membership renewal rate has stayed at an all time high of 87%, the best in the industry.

Costco's management is focused on growing market share during this downturn by keeping their prices low and retaining members. It is likely that their margins will be squeezed as consumers continue to focus on food over furniture. However, as other debt-laden retailers with falling sales struggle and risk going out of business, Costco should be well positioned to emerge from this challenging environment much stronger with less competition.





## 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 12/31/08)

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 December 31, 2008, cash represented 14.5% of the total composite. This information is presented as supplemental and complements the Annual Disclosure Presentation located at the bottom of this page.*

## Performance

	1 Year*	3 Year*	5 Year*	Since Inception* 10/1/98
<b>Focused Taxable Composite</b>	-34.45%	-7.26%	0.16%	5.81%
S&P 500 Index	-37.00%	-8.36%	-2.19%	0.53%

\* 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 change 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		
2008	92,666	7,021	8%	13	(33.80%)	(34.45%)	(37.00%)	1.5%
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.