



Mid-Quarter Newsletter

August 15, 2009

From My Corner

Jeff Mengis – President

Market Comments: Over the last 5 months, the S&P 500 has surged 50% from lows set on March 6th of 666.79 to the current level of 1,004.09. The recovery in the markets has been fairly typical, in that financial and cyclical companies have been market leaders. Much of the rally has been a result of renewed confidence in the nation's banks and financial system in general. In addition, bottom-line profits have been mostly better than expected, largely due to aggressive cost cutting efforts, which is common in the first leg of a recovery. However, in order for the rally to continue, companies will need to grow profits by increasing revenues. Given the weakness of the U.S. consumer, we feel companies that are positioned to grow through sales abroad or new product cycles will be strongest over the coming months.

In the fixed income markets, we are seeing some opportunity in short-term corporate bonds that mature in 4-6 years. With the Federal Reserve and U.S. Government pumping money into the system at unprecedented rates, inflation is a possible concern. Therefore, we have been buying investment grade bonds with shorter maturities that should experience lower volatility than longer-term bonds.

Given the volatility of the past year, we think it is important that investors not get too pessimistic when assets are down and not get overly excited when prices have had a good run. We encourage you to continue to work with us to determine an asset allocation that you are comfortable with and that achieves your long-term financial goals.

We have recently received a number of referrals for which we are very grateful. Referrals are the greatest compliment and truly appreciated.

Investment Focus:

DODGE & COX FUNDS

With bank money market rates yielding next to nothing, we thought it might be a good opportunity to highlight a bond fund rated five stars by Morningstar that has a 5.7% yield as of July 31st. The **Dodge and Cox Income fund (DODIX)** invests about half of its assets in short term diversified corporate bonds, and the other half in U.S. government treasuries and agency debt. Over 87% of the fund's \$15 billion in assets are in investment grade bonds (rated BBB or higher). During the past year, the fund experienced a peak to trough decline of about 12%, which is reasonable given the historically high volatility of the past year. The average maturity is 6.5 years and the effective duration is 3.7 years. The relatively short maturities and asset credit quality of the fund are closely aligned with our individual positions in the fixed income market.

The Dodge and Cox Income fund has recently benefitted from inefficiencies that were created in the corporate and mortgage backed bond market over the past year. For certain accounts, this fund may provide greater diversification and a more efficient way to capture the return of this asset class. If you have money to put to work that is not earning much in a bank account, the Dodge and Cox Income fund may be a good way to increase your cash flow.

DODGE & COX INCOME FUND
as of 14-Aug-2009



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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 06/30/09)

Intel	5.3%
Amgen	4.5%
AT&T	4.3%
Cisco	4.2%
Teva Pharmaceuticals	4.1%
Precision Castparts	3.7%
Costco	3.5%
Qualcomm	3.0%
Barrick Gold	2.8%
Microsoft	2.8%

Data presented represents a percent of the total market value of the Focused Taxable Equity Composite, including cash. As of June 30, 2009, cash represented 8.9% 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*	5 Year*	Since Inception* 10/1/98
Focused Taxable Composite	4.14%	-0.15%	5.93%
S&P 500 Index	3.16%	-2.24%	0.79%

* Past performance does not guarantee future results. Please see additional performance disclosures at the end of this presentation. Numbers are net of fees. 5 year and inception percentages are annualized 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. A review of this track record for compliance with the portability requirements of the GIPS standards was conducted by Ashland Partners & Company LLP. 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. Mengis Capital Management, Inc. has been verified for the periods November 28, 2001 through March 31, 2009 by Ashland Partners. In addition, a performance examination was conducted on the Focused Taxable Equity Composite beginning November 28, 2001. A copy of the verification report is available upon request. 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.