



## Mid-Quarter Newsletter

February 15, 2010

### From My Corner

Jeff Mengis – President

**Market Comments:** Our team at Mengis Capital has recently expanded to include my daughter, Lindsay Mengis. Lindsay graduated from Oregon State University in 2008 with a Business degree and minor in Athletic Administration. Prior to working at Mengis Capital, Lindsay worked at Zimmer Northwest, an orthopedic company, where she was an Executive Assistant and Customer Service Representative. She enjoys being active, vacationing with her family and attending Beaver football games.

As Operations/Marketing Manager, Lindsay is looking forward to helping you with general questions pertaining to your accounts such as money transfers, market quotes, etc. Michael Patterson has transitioned into the position of Research/Portfolio Manager. This realignment will enhance our level of service in all areas of our business.

### News from Charles Schwab

The new year brings good news of lower commission pricing from Charles Schwab. For all accounts that have initiated e-delivery of statements and trade confirmations, Schwab has announced equity trade commissions of \$8.95, regardless of account size. Households with assets greater than \$1 million will continue to receive reduced \$8.95 commissions, whether you have set up e-delivery or not. If you would like to set up e-delivery on your account in order to qualify for the reduced commissions, please call Lindsay at 503-916-0776 when you have a few minutes and access to your computer.

You may have noticed that Charles Schwab has been sending out the 1099 tax documents later this year. The 1099s for the majority of taxable accounts were sent on February 8, 2010. Schwab has taken more time to process the 1099s in an attempt to reduce errors and avoid sending out corrected documents. Hopefully, these efforts will reduce the need for multiple appointments with your accountant or amended tax returns. We certainly appreciate your patience and understanding. If you need any assistance getting copies of your 1099 or Accountant Copies, which were included in the year end MCM reports, please do not hesitate to contact us.

### Investment Focus:



Arguably, few companies have as much impact on our regional economy as computer chip maker **Intel (INTC)**. Intel has a major presence in the Great Northwest as a technological innovator and as an employer.

We currently favor Intel as an investment based on our belief that the company is likely to benefit from an upturn in its product cycle. Last year, Intel profited from inventory restocking after customers reduced chip supplies to unsustainable levels. According to analysis by Credit Suisse, the average age of corporate notebooks and desktops is 4-5 years old, a time when companies typically look to upgrade equipment. Intel is well positioned with newer chips like the Atom for netbooks and the much improved Xeon processor, which makes servers significantly more efficient. Going forward, we think Intel will see revenue growth from an emerging product cycle driven partly by Microsoft's new version of Windows.

During the downturn, Intel's management increased efficiency by reorganizing certain segments of the company and reducing overhead where necessary. With 85% of 2008 sales coming from abroad, global markets provide an enormous opportunity for Intel's advanced technology. We have some concerns that inventory replenishment has run its course and that new demand may be focused in chips for low-margin netbooks. However, given that the stock has historically traded at about 13X cash flow and is now trading at about 8X consensus 2010 projected cash flow, we feel those concerns are reflected in the current valuation. Lastly, Intel recently raised its dividend and currently yields about 3%.





## 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 12/31/09)

Intel	5.5%
Amgen	4.6%
Precision CastParts	4.6%
Cisco	4.5%
3M	4.3%
AT&T	4.1%
Teva Pharmaceuticals	3.9%
Costco	3.8%
McDonald's	3.4%
BP	3.1%

*Data presented represents a percent of the total market value of the Focused Taxable Equity Composite, including cash. As of December 31, 2009, cash represented 6.9% of the total composite. This information is presented as supplemental and complements the Annual Disclosure Presentation located at the bottom of this page.*

## Performance

	1 Year*	5 Year*	Since Inception* 10/1/98
<b>Focused Taxable Composite</b>	24.10%	1.43%	7.32%
S&P 500 Index	26.46%	0.42%	2.60%

\* 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 changed to \$150 thousand. Results are based on fully discretionary accounts under management, including those accounts no longer with the firm. As of 12/31/2009, there are 10 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		
2009	103,436	9,968	10%	10	25.33%	24.10%	26.46%	1.9%
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.