

Mengis

CAPITAL MANAGEMENT INC.



Focused Taxable Composite

QUARTERLY PROFILE
4th Quarter 2008

Investment Philosophy

- **Portfolio management** – Using a bottom-up fundamental approach allows us to build portfolios one company at a time with a primary focus on identifying reasonably valued companies that offer strong quantitative and qualitative characteristics. Our portfolio research team utilizes independent research from multiple firms, allowing us to examine varying perspectives of the company's outlook before allocating capital. With this approach, sector weights are determined by the underlying relative value of the companies within each sector.
- **Relative value** – We constantly review our current holdings against opportunities in the broader market. This approach often leads to a balance between growth and value companies, depending on market valuations.

Top Ten Holdings (as of 12/31/08)

| | |
|---------------------|--------------|
| Amgen | 6.7% |
| AT&T | 5.7% |
| Intel | 5.1% |
| Costco | 4.1% |
| Cisco | 4.1% |
| Genentech | 4.0% |
| Qualcomm | 3.7% |
| Valero Energy | 3.6% |
| BP | 3.6% |
| Precision Castparts | 3.2% |
| Total | 43.8% |

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. While our primary holdings are in large-cap stocks, our multi-cap approach affords us the flexibility to invest in companies of all sizes. Our overall goal is to consistently outperform the S&P 500 index.

Composite Highlights

NEW POSITIONS: We nibbled away at a couple of new positions in the fourth quarter that look to take advantage of consumers "trading down" at discount retailers. **DSW Inc. (DSW)** and **TJ Maxx (TJX)** both buy their products from high end retailers with unsold inventory like Macy's and sell them at a significant discount to their customers. During the quarter, we initiated a position in **Williams Companies (WMB)**, which gathers, processes and transports natural gas. Unlike some natural gas companies with unfavorable debt schedules, Williams does not have significant debt maturing until 2011. Finally, we started a position in the **NYSE (NYX)**. Shares of the NYSE are down due to a lack of IPOs hitting the market, but the company should benefit from a significant increase in trading revenues driven by more volatility.

INCREASED POSITIONS: We continue to add shares to **Barrick Gold (ABX)** as its material expenses (oil) fall, while its product (gold) is increasing in value. Also, we added to our position in **Valero (VLO)**, a refiner whose valuation remains at historical trough levels. Valero should be poised to benefit from lower oil prices and its competitive position within the industry. Our stake in natural gas company **El Paso (EP)** increased during the quarter. While debt management concerns hang over the natural gas industry, El Paso's dual business structure of pipelines and production should provide stability of cash flow.

DECREASED AND ELIMINATED POSITIONS: Through the market turmoil, a few core positions have maintained a premium valuation. While we continue to believe in the long-term growth of companies like **Costco (COST)**, **Qualcomm (QCOM)** and **Amgen (AMGN)**, we felt it was prudent to reduce positions due to their current relative valuations. We also sold shares in **Genentech (DNA)**, as a takeover bid from Roche provides limited upside with a potentially large downside if the deal were to fall apart. Our stake in **General Electric (GE)** was significantly reduced out of fear that the financial arm of the company would be a drag for some time. We sold our small stake in **Teva Pharm. (TEVA)** due to concern that their purchase of Barr will dilute shareholders in the medium-term. Our **Oracle (ORCL)** position was eliminated because we feel sales of their software to the ailing financial industry will suffer. Finally, we sold our limited stake in gas explorer **Cabot Oil & Gas (COG)** in favor of diversified natural gas companies that also offer pipeline transport.

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