



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%.

