NORTHWEST CRITERION
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Dear Client,

**ACTIVITY**

The equity markets are down about 8% from 15-month highs reached in early January and during this decline we took the opportunity to put some of our cash to work. On January 26, we invested in Forest Laboratories (FRX) at $30.06. Forest Labs is a leader in the development, manufacture and sale of branded and generic drugs. On February 1 we purchased Molson Coors Brewing (TAP) at $42.50 and sold Trinity Industries (TRN) at $15.75. On February 4 we purchased National Oilwell Varco (NOV) at $43.07. Molson Coors is the 5th largest brewer in the world with strong distribution in Canada, the U.S. and the U.K. National Oilwell is the dominant rig equipment supplier to oil and gas exploration companies throughout the world. Additionally, in an effort to construct an income producing strategy, we have begun structuring a select portfolio of investment-grade common and preferred stocks of companies paying relatively high dividends.

**OBSERVATIONS**

Earnings reports for the Q4 2009 are being released and those results have been positive. As of this writing over 70% of corporations reporting have beaten earnings (bottom line) expectations and over 70% have beaten revenue (top line) expectations, which is a very welcome progression in the quality of earnings. In the spring of 2009 corporations were reporting large losses and some CEOs were saying they had "no visibility" in their operations. In the summer and fall of 2009 earnings reports were better and positive, but analysts complained that they were built on cost savings only, as revenues were weak. This improvement in earnings is occurring on the heels of a Q4 2009 GDP report of +5.7%, a steady increase in capacity utilization, and nine straight months of increases in the index of leading economic indicators. Can it be long before businesses have to expand the number of employees? The January employment figures released last Friday reported a surprising drop in the unemployment rate to 9.7%. As possible precursors to permanent hiring, the report included details of a longer work week, higher hourly earnings, and a fourth straight month of an increase in temporary hiring.

In spite of the solid earnings reports and the relatively positive economic reports, the equity markets have not performed well. The S&P 500 Index has corrected a bit over 8% from this January's highs after a 70% increase from its March 2009 lows. Serious fiscal woes are facing Greece and the fear of contagion within the European Monetary Union is hurting European equities and putting pressure on the Euro. China's efforts to moderate lending and keep asset bubbles from developing have led to decreases in some commodity prices, and the recent strength in the US Dollar is also contributing to the pressure on equity and commodity prices. Domestic political issues upsetting markets include concerns about the size of deficits, a restructuring of the banking system, the tenure of Treasury Secretary Geithner, the fate of health care reform, and the depth of involvement government will have in the operations of various businesses.

A stable housing market and a healthy, functioning financial system are both extremely important to a sustainable economic recovery. After improving fairly steadily throughout 2009 existing home sales have leveled off while new home sales have declined substantially from the levels of three months ago, but are still well above the January 2009 lows. The inventory of unsold homes has also leveled off at about 8 months of supply after reaching as high as 12 months in 2009. Even though there has been a slowdown in purchases, the Housing Affordability Index remains near a record high and favorable for buyers. Legislation to restructure the banking system and levy new fees (taxes?) are causing concern about future earnings and the ability/willingness of banks to make mortgages and consumer loans. There is still much worry about the health of regional and community banks because of their exposure to commercial real estate loans. Having said this, it still appears the Federal Reserve will be keeping the Federal Funds Rate close to zero for the foreseeable future and producing healthy bank profits as it does so.

As always, we can find many positives and negatives as we survey the markets, but we are encouraged that the economy has not only come back from the brink, but is growing while the quality of corporate earnings is improving. And as mentioned earlier, we are still finding new investment opportunities.

Michael A. Camp
Principal

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