NCM Client Notification
A publication of Northern Capital Management, Inc.
October 15, 2008

To our Clients:

The last time the market was at this level our comment was "**If you have cash and nerves of steel, it is time to invest"** and we still believe that to be the case.

Today, the market sell-off began with a weak retail sales report. It should serve as no surprise with difficulty securing credit and uncertainty of markets consumers reigned in spending.

Relatively good earnings reports were pretty much ignored as was the falling cost of fuel at the pump.

Then late in the day there was rumor of a large hedge fund experiencing significant losses and liquidating positions. This caused a cascade of hedge fund liquidations further exacerbating the drop.

The market now seems to be forgetting about the "last" problem and is moving on to the next.

Lending between banks has begun to ease. This is evident in a key overnight lending rate referred to as the Libor. It is falling at the overnight and three month rate….both important to follow. If this pattern continues, as we expect it will, it will market the beginning of the end of the credit freeze.

As we have stated many times in the past, the market does not like uncertainty.

The first declines this year were driven by uncertainty about the state of the banking system. That is resolving itself now.

The second wave of uncertainty was caused by our inept House of Representatives failure to pass the Troubled Asset Relief Program (TARP) on the first pass and then promptly leaving town. It was passed on October 3rd, but much of the momentum damage to the market was done.

Now chapter three….uncertainty about whether the credit freeze put the US economy into recession in the third quarter and/or will it put the US economy into a recession in the fourth.

Clearly all of these waves of uncertainty have placed an immense amount of selling pressure on stocks. As the uncertainty and investor skittishness continues it forces more mutual funds to liquidate holdings. Additional deleveraging of hedge funds continues, as evidenced by today's decline (Deleveraging of a hedge fund occurs as they sell stocks to pay down debt...good long-term for the market and bad short). Next 401(k) participants will once again pile on and the cycle continues….

Economic and corporate profits ultimately will drive the market higher, which is why we continue to monitor them closely. Clearly the economy has weakened and clearly corporate profit prognostications for the fourth quarter have come down, but the numbers are still good and more importantly at today's levels valuations have sunk to a 30 year low. Said another way, stock prices relative to corporate profits are extremely low. The number of stocks whose prices have sunk below the book value (kind of like the breakup value of a company) is striking and in our minds this creates buying opportunities for those with nerves of steel.

For those not adding to positions or who do not wish to become more aggressive, it is important to note losses will only be incurred when positions are liquidated. Our share prices are depressed, but will come back. If we move to cash we have locked in our loss and transferred the recovery gain to somebody else….who bought our shares low.

We continue to brace for what tomorrow may bring, but it is clear we are seeing signs of tangible progress in the banking sector.

We will keep you posted.

Investment Committee
Northern Capital Management, Inc.