



NCM Client Notification

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To our Clients:

Those who can continue to invest new dollars should continue to do so. The line between wisdom and valor is a fine one. Advisors and investors alike are questioning which closest describes their investment actions in this environment.

When we evaluate market valuations, we look at them from a variety of dimensions. One of the most compelling arguments for investing is reflected in the relationship between the dividend yield on the S&P 500, yield on the 10 year Treasury and the earnings yield (this is the expected 12 month forward looking earnings of a company divided by a company's stock price—this is the inverse of the PE ratio).

Assuming an earnings contraction in 2009, we have an "earnings yield" of 6.8%, dividend yield of 3.5% and an 10 year Treasury yield of 3.7%. As you look at the table of data below, note the only period of time where the relationship between the earnings yield plus dividend versus the risk free 10 year Treasury yield was 1974. Following this period the market rose over 38%. This information is confirmed by the data in the table below from Zacks (without their permission....so shhhh).

Bear in mind they are using sour earnings projections for 2009. Less dire 2009 predictions push the P/E down to 9.7.

Year	EARNINGS WHISPERS			Earnings		Dividend		10 Year Treasury	
	S&P 500	EPS	PE Ratio	Yield	Yield	Yield	Unemployment	Inflation	
1970	92.15	5.51	16.7	6.0%	3.5%	6.5%	6.1%	5.6%	
1974	68.56	9.35	7.3	13.6%	5.4%	7.4%	7.2%	12.3%	
1975	90.19	7.71	11.7	8.5%	4.1%	7.8%	8.2%	9.2%	
1980	135.76	14.99	9.1	11.0%	4.7%	12.4%	7.2%	12.5%	
1982	140.64	13.82	10.2	9.8%	4.9%	10.4%	10.8%	3.8%	
1990	330.22	22.65	14.6	6.9%	3.7%	8.1%	6.3%	6.1%	
1991	417.09	19.10	21.8	4.6%	3.1%	6.7%	7.3%	3.1%	
1999	1,469.25	51.68	28.4	3.5%	1.1%	6.4%	4.3%	2.7%	
2000	1,320.28	56.13	23.5	4.3%	1.2%	5.1%	3.9%	3.4%	
2006	1,418.30	87.72	16.2	6.2%	1.8%	4.7%	4.4%	2.5%	
2007	1,468.36	82.54	17.8	5.6%	1.9%	4.0%	5.0%	4.1%	
2008	876.77	65.62	13.4	7.5%	3.5%	3.7%	6.5%	4.9%	
2009	876.77	60.00	14.6	6.8%	3.5%	3.7%	7.5%	3.5%	

It is this data which directs us to counsel clients to invest into other people's fear. We believe fresh cash investments into the market at these levels will prove to be very wise when looked back upon.

To the best of my knowledge Warren Buffet has only publicly proclaimed he is personally investing in stocks at two points in our history. The first time was 1974 and the second a week ago. This is exactly what he said... "So ... I've been buying American stocks. This is my personal account I'm talking about, in which I previously owned nothing but United States government bonds. (This description leaves aside my Berkshire Hathaway holdings, which are all committed to philanthropy.) If prices keep looking attractive, my non-Berkshire net worth will soon be 100 percent in United States equities."

We will continue to keep you posted. We are not calling a bottom....but we think we are close.

Investment Committee
Northern Capital Management, Inc.