



# NCM Client Notification

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To our Clients:

**Perhaps we should title this communication "A Tale of Two Investment Statements"...kind of like the movie A Tale of Two Sisters.**

Upon opening October month-end statements investors will most likely resemble a teenage girl by the name of Su-Mi, who is found in a mental hospital suffering from shock and psychosis in the opening scenes of the movie.

The market hit an intra-day low of 7,882 on October 10th. We believe this marked the point of individual investor/401(k) participant capitulation. During that week a record \$139 billion was withdrawn from US and non-US stock mutual funds.....the vehicle of choice for most retirement plans.

Since that time we witnessed a second and third wave of selling for a variety of reasons we will not go into (i.e. deleveraging of hedge funds and so forth).

During these dips we beseeched clients to add new money to accounts for investment into stocks or alternatively consider changing investment objectives to become slightly more aggressive. Most communications included the phrase "nerves of steel". We are pleased to report many clients took advantage of this opportunity.

While clearly the game is not over, we are seeing signs a recession is already baked into the market cake. This is evident when stocks rise despite bad news. Over the last few trading days it was reported GDP contracted, manufacturing dropped, construction fell and domestic vehicle sales plummeted....yet the market has risen four of the last six days in pretty convincing fashion. My mentor referred to this phenomena as the market "climbing a wall of worry"\*.

Today the Dow Jones Industrial Average stands at 9,625, a stunning 1,743 points (22.11%) off of the floor.....but perhaps an even more stunning 3,696 points below where we started the year. Clearly, we must climb a steep slope for portfolios to pull even with beginning of the year values. While we are uncertain how long this recovery will take, we are confident it will occur.

The fundamentals of the U.S. stock market have "improved radically" and declines in valuations are overblown, according to legendary investor and Vanguard Group founder John Bogle.

"It seems to me that people have lost sight of the fact that the fundamentals have improved radically," said Bogle, who launched the Vanguard 500 Index in the mid-1970s as a low-cost investment strategy.

"The value of the U.S. stock market was \$18 trillion a year ago. And now it's about \$9.5 trillion or let's call it \$10 trillion with today's rally. Anyone who believes that American business is worth \$8 trillion less than it was a year ago I think is a fool," he told Reuters in a recent telephone interview. Again, I am certain my mentor would concur\*.

We have initiated a series of transactions in portfolios recently to take advantage of market inefficiencies. We will detail these moves and an aggressive series of tax related trades in Client Notifications later this week and next, so please continue to read our communications.

As the Tale of Two Sisters concludes, Su-Mi brushes past her evil stepmother. She hesitates and thinks about going back inside, but instead she goes for a walk down a pathway not knowing that her life has changed forever and that she won't be able to ever make the past events go away. We too must continue to move forward looking for opportunities as markets recover.

As for those October statements.....it is up to you whether or not you want to open them. There will be a better day.

Investment Committee  
Northern Capital Management, Inc.

\*penned by Jim Wilson