NORTHERN
CAPITAL MANAGEMENT INC
A REGISTERED INVESTMENT ADVISOR

MEMO FROM THE NORTHERN CAPITAL MANAGEMENT, INC. INVESTMENT COMMITTEE
February 6, 2008

Several weeks ago we informed our clients that we felt the US economy was flirting with recession. Since that time there have been several economic releases, some of which confirm this view and others that provide glimmers of hope.

Today one of the key reports our Investment Committee follows, referred to as the Institute for Supply Management ISM Manufacturing Report On Business, delivered an absolutely dismal set of numbers reflecting the health of non-manufacturing industries (non-manufacturing simply means all businesses that do not build something in a factory).

The tipping point between economic expansion and contraction is a score of 50. Scores of less than 50 indicate contraction. The January figure clocked in at 44. This is the first contraction in 58 months and the worst since October 2001 – the immediate aftermath of the September 11 terrorist attacks.

The Institute for Supply Management ISM Manufacturing Report On Business is considered by many economists to be the most reliable near-term economic barometer available. Except for a four-year interruption during World War II, the Report has been published monthly since 1931 for the guidance of supply management professionals, economists, analysts, and government and business leaders.

The reason the ISM Non-Manufacturing Report On Business is so highly respected is that it is based on hard data rather than on conjecture. It is released on the third business day of each month and is based on data compiled from monthly surveys sent to more than 375 purchasing executives working in the non-manufacturing industries across the country. Each month, these survey responses reflect change, if any, in the current month's report compared to the previous month. The report covers Business Activity, New Orders, Backlog of Orders, New Export Orders, Inventory Change, Inventory Sentiment, Imports, Prices, Employment and Supplier Deliveries.

While the Report does not represent the final definitive indicator for recessions, it is one of the bigger arrows in our quiver.

On a more favorable note overall, the amount of monetary and fiscal stimulus needed to shore up the economy should turn out to be less than what was provided in the 2001 recession. Additionally, both the governmental and Federal Reserve moves to support the economy began much earlier in this cycle, which puts recovery towards the end of 2008 as a very real possibility.

Finally, earnings reports from the fourth quarter continue to pour in and, with the notable exception of financials and consumer discretionary spending, the numbers look good. Of course, this is old news as it represents the fourth quarter of 2007.

Our earnings focus now will shift to revisions of the anticipated 11.8% earnings growth expectations for all of 2008. We need to monitor magnitude and speed of any downward revisions. However, based upon current earnings projections, stocks are undervalued compared to historical levels. This means we may well fall from this point, but with each drop the market becomes increasingly more attractive and there may well be a point at which we encourage clients to add fresh cash to their portfolios.

At this stage, downside and upside risks to our outlook are large but balanced.

Investment Committee
Northern Capital Management, Inc.