



NCM Client Notification

OCTOBER 1, 2008

A publication of Northern Capital Management, Inc.

To our clients:

We were pleased and surprised by the bounce in the equity markets yesterday, but remain extremely uncomfortable with the current political situation.

We are still in the midst of the financial crisis. Congress still must act and it must act quickly.

In previous communications we alluded to a very dangerous type of unregulated derivative investment referred to as credit default swaps (CDS). Two weeks ago we speculated CDS's were the reason regulators stepped in and bought AIG.

If the government does not pass a bill very soon, we may become a victim of CDS poison. We will not go into the mechanics of the vehicle, but if you are interested it is outlined in the 2008-09-18 Client Notification found on our website.

There are \$56 TRILLION worth of credit default swaps floating around out there. That is over twice the value of the stock market and over five times the value of the national debt. More sobering, it is an unregulated market.

In the late 1990's the Commodity Futures Trading Commission attempted to regulate them, but Alan Greenspan opposed. Then, in 2000, Congress, with the support of Greenspan and Treasury Secretary Lawrence Summers, passed a bill prohibiting all federal and most state regulation of CDS and other derivatives.

Warren Buffet has referred to derivatives like CDS's as "financial weapons of mass destruction".

If toxic banking debt is not dealt with and the economy not reinvigorated, CDS fallout could be significant and disastrous.

We again beseech you to contact your representative in the House. For those in Spokane, e-mail Cathy McMorris at jared@cathyforcongress.com; amanda@cathyforcongress.com; jeff@cathyforcongress.com; and cathy@cathyforcongress.com.

Our Investment Committee finds itself in an odd position as there are only two potential outcomes from the Federal government. We suppose this is one of those "hope for the best and plan for the worst" situations. Either Congress will pass a bill or not. Both contingencies need a plan.

In the event a bill we are comfortable with is passed, we intend to increase exposure to financial firms through the use of a "sector" fund.

If a bill is not passed, though reticent to "lock in losses", it will be on the table for discussion in an effort to preserve assets, as we believe failure could have dire consequences for the economy unlike any we have experienced in modern times.

So we will be intently watching legislative events unfold over the coming days, all the while cajoling our representative in the House to vote for the good of the nation and not the good of her campaign. It will ultimately tell us much about her true character as this is a defining moment. What is more important, your job or the greater good?

We will continue to provide you with updates and insights.

Northern Capital Management, Inc.

Investment Committee