



Northwest Stocks

September 16th, 2008

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www.smeadfunds.com

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The Next Great U.S. Stock Market

Look like 1982 or possibly 2008?

- ❑ Overvaluation followed by bear market
- ❑ Years of Neglect, transfer to other asset classes and incredibly negative crowd psychology
- ❑ Massive ammo on the sidelines
- ❑ Inflation fears everywhere
- ❑ Interest Rates down
- ❑ Look What Happened

Overvaluation Followed by Bear Market



The S&P 500
(December 1972 - December
1974)
was down ~45%.

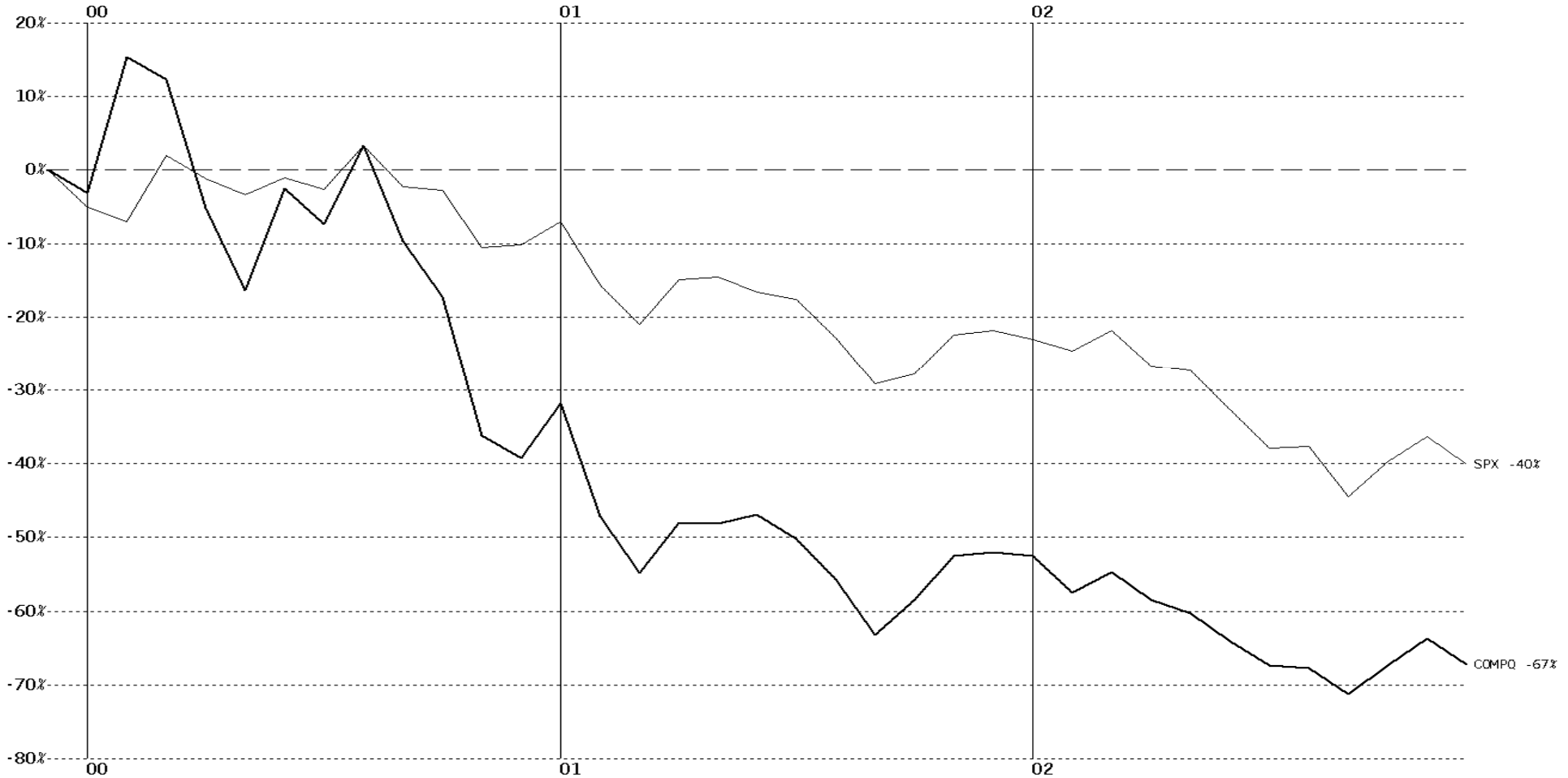


The Nifty Fifty fared
much worse.

Source: BigCharts.com

Overvaluation Followed by Bear Market

S&P 500 vs NASDAQ COMPOSITE
(Dec 1999 TO Dec 2002)



S&P 500 vs. Nasdaq Composite 2000-2002

Source: Thomson Baseline

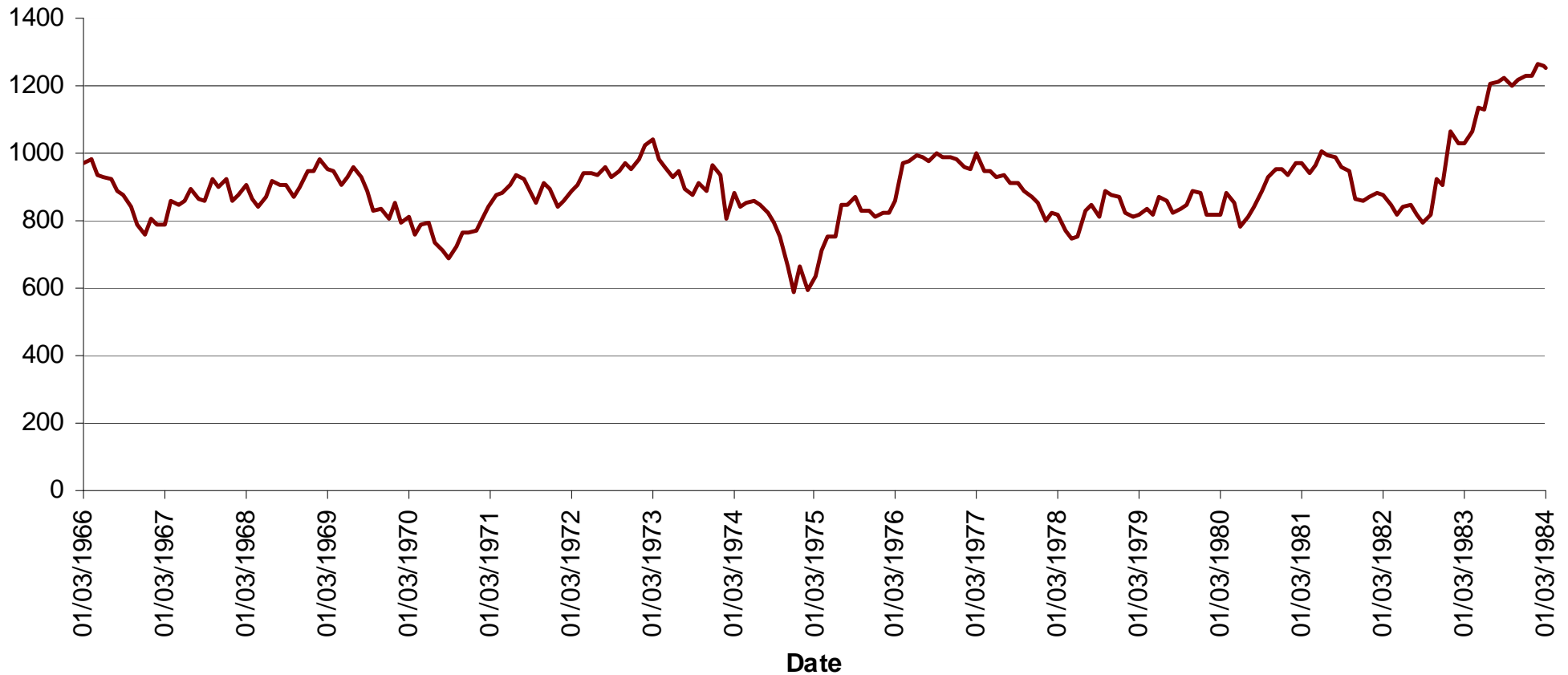
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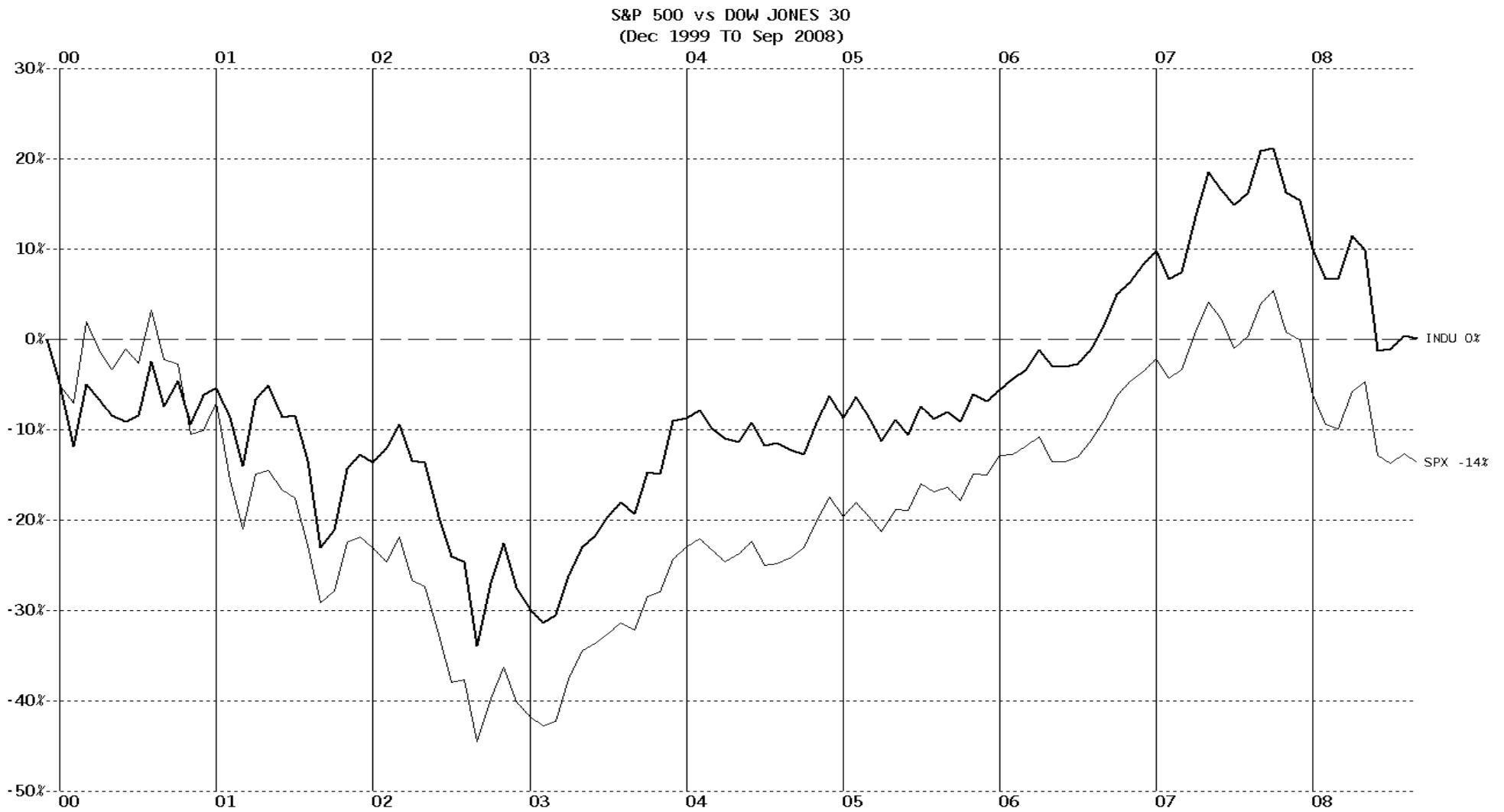
Years of Neglect and Negative Crowd Psychology - 1982

Dow Jones Industrial Average (1966 – 1983)



Source: Dow Jones Indexes. Past performance is no guarantee of future results.

Years of Neglect and Negative Crowd Psychology - Today



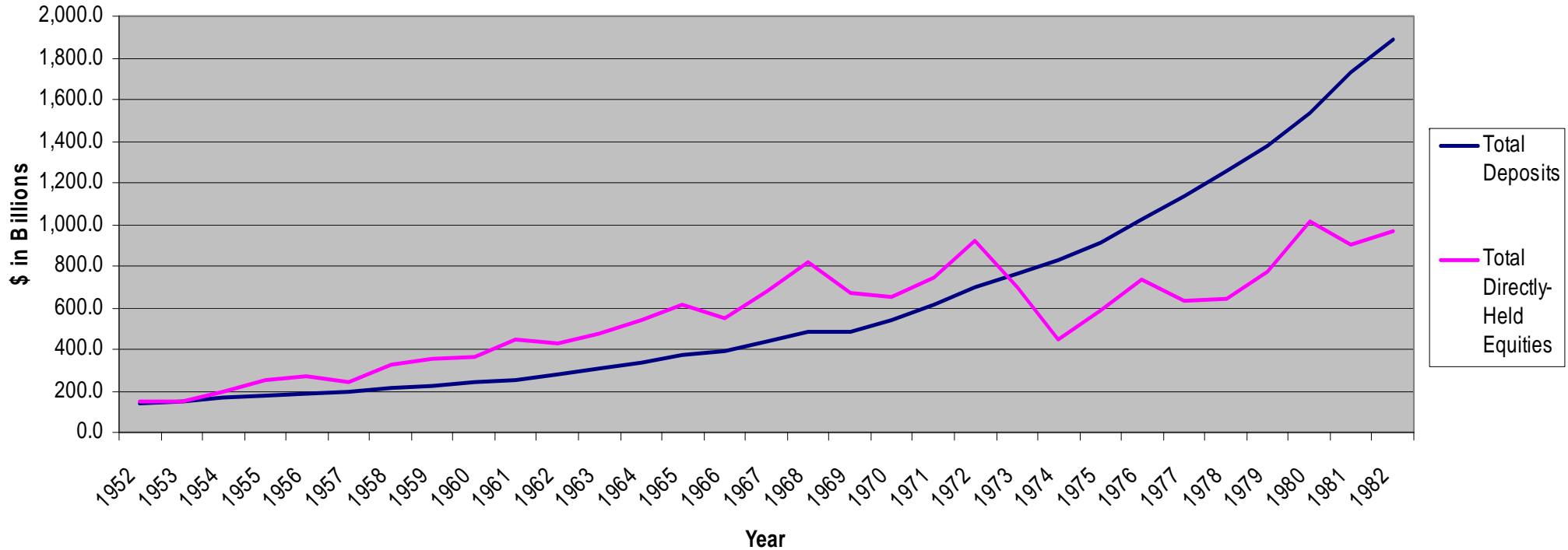
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Massive Ammo on the Sidelines 1982

Total Deposits vs. Total Directly-Held Equities



Source: Federal Reserve Flow of Funds Statistics

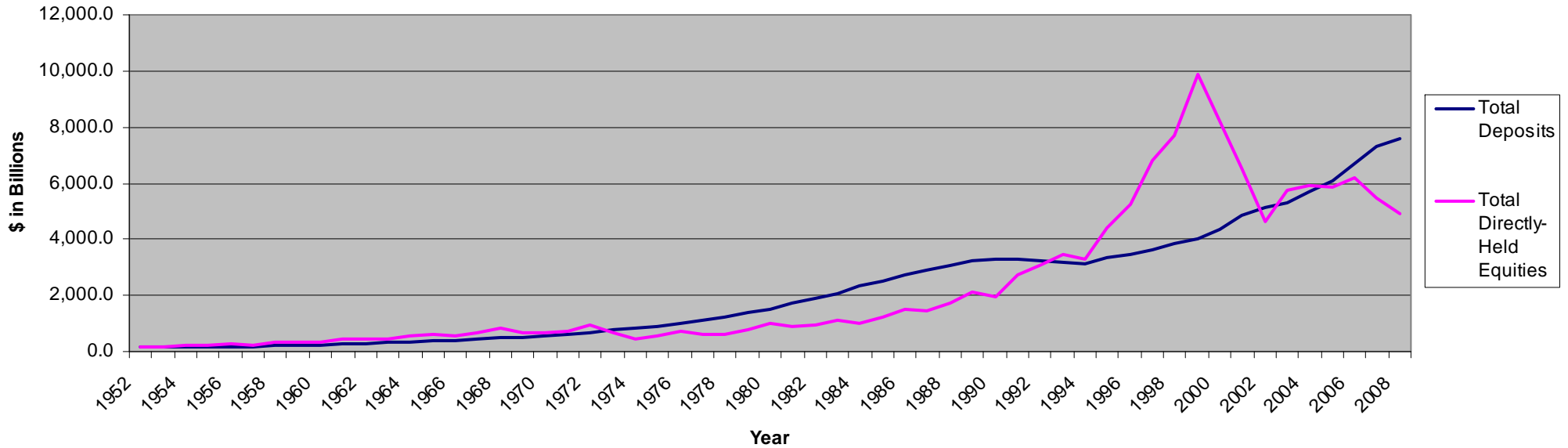
Massive Ammo on the Sidelines 1982

Year	1972	1981
Total Deposits (in billions)	\$697.2	\$1731.7
Total Directly- Held Equities (in billions)	\$921.4	\$905.2

Source: Federal Reserve Flow of Funds Statistics

Massive Ammo on the Sidelines Today

Total Deposits vs. Total Directly-Held Equities



Source: Federal Reserve Flow of Funds Statistics

Massive Ammo on the Sidelines

Year	1972	1981	1999	1Q-2008
Total Deposits (in billions)	\$697.2	\$1,731.7	\$4,028.2	\$7,588.3
Total Directly-Held Equities (in billions)	\$921.4	\$905.2	\$9,891.7	\$4,898.3

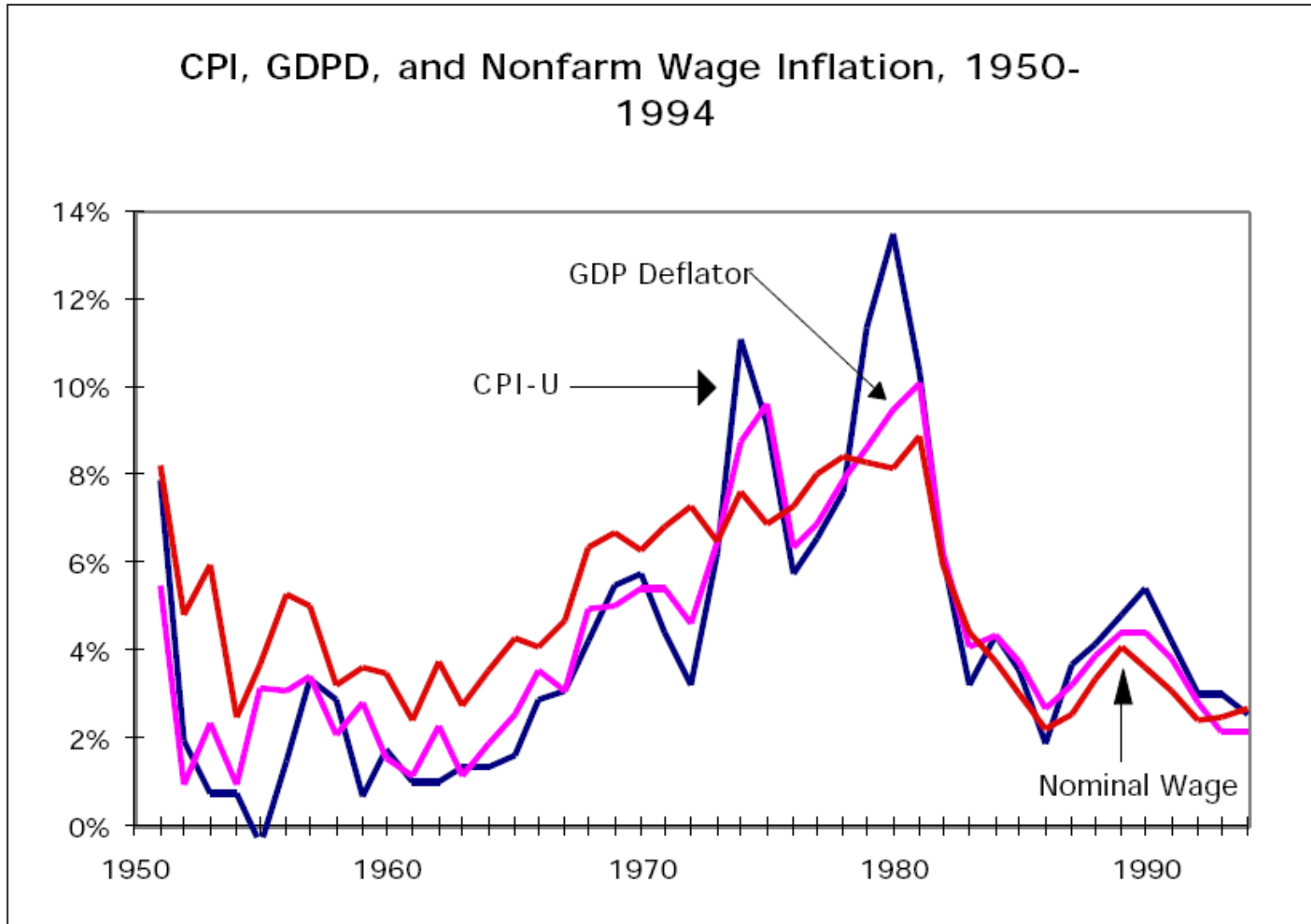
Source: Federal Reserve Flow of Funds Statistics

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Inflation Fears Everywhere



Source: J. Bradford De Long, America's Only Peacetime Inflation: The 1970s.

Inflation Fears Everywhere

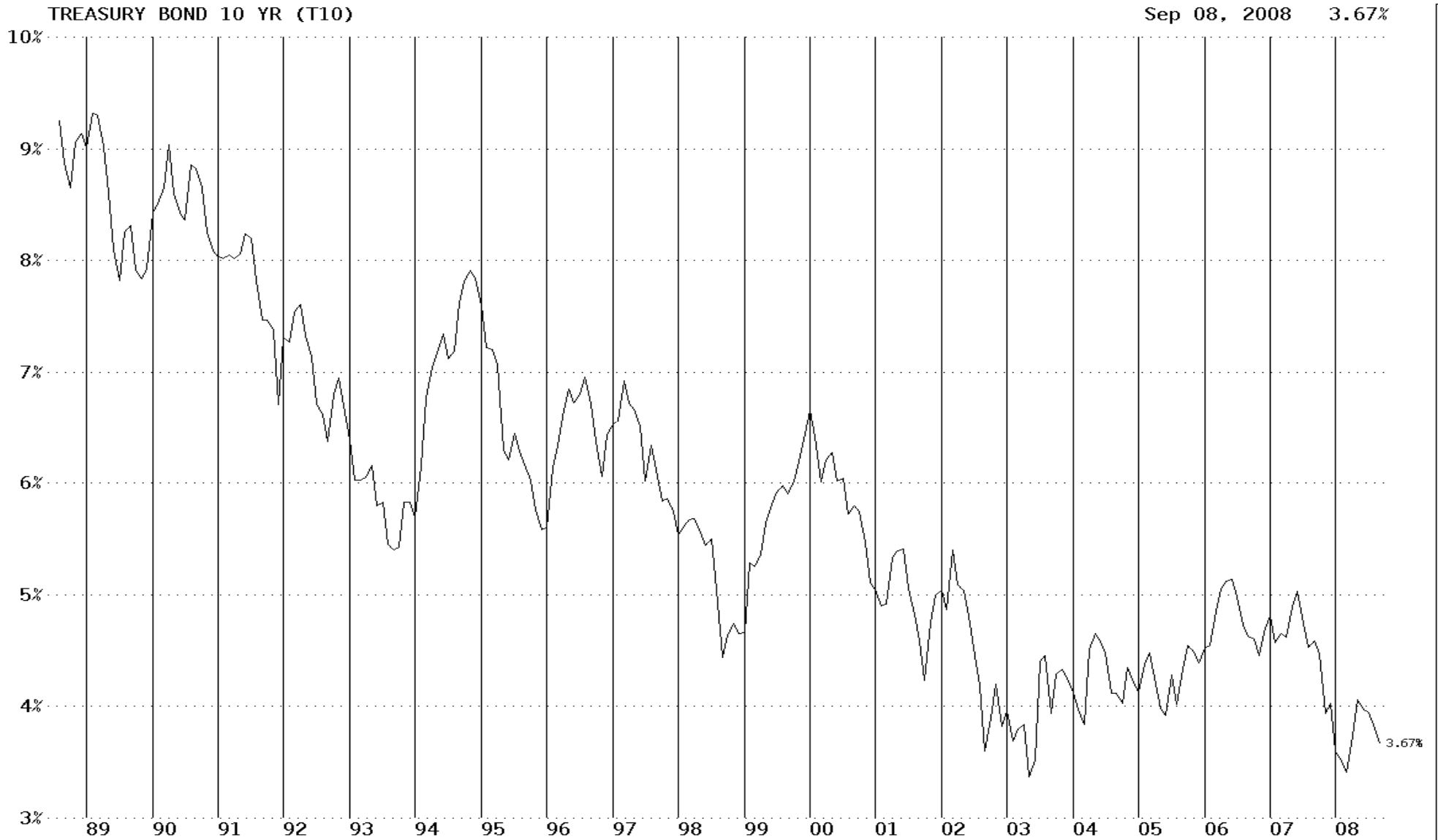


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Interest Rates Down



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Look What Happened



Dow Jones Industrial Average 786 to 11720

Source: BigCharts.com

Smead Capital Management's Eight Criteria

1. *Strong Balance Sheet*
2. *Long History of profits and Dividends or stock buybacks*
3. *Management's history of shareholder friendliness*
4. *Strong insider ownership*
5. *Meets an economic need*
6. *Generates high level of free cash flow*
7. *Strong competitive advantage*
8. *Available at a low price in relation to the fundamental of the business*



Northwest Stocks: Under the Microscope

- ❑ Microsoft Corp. (MSFT)
- ❑ Nordstrom Inc. (JWN)
- ❑ Starbucks Corp. (SBUX)
- ❑ XL Capital Inc. (XL)

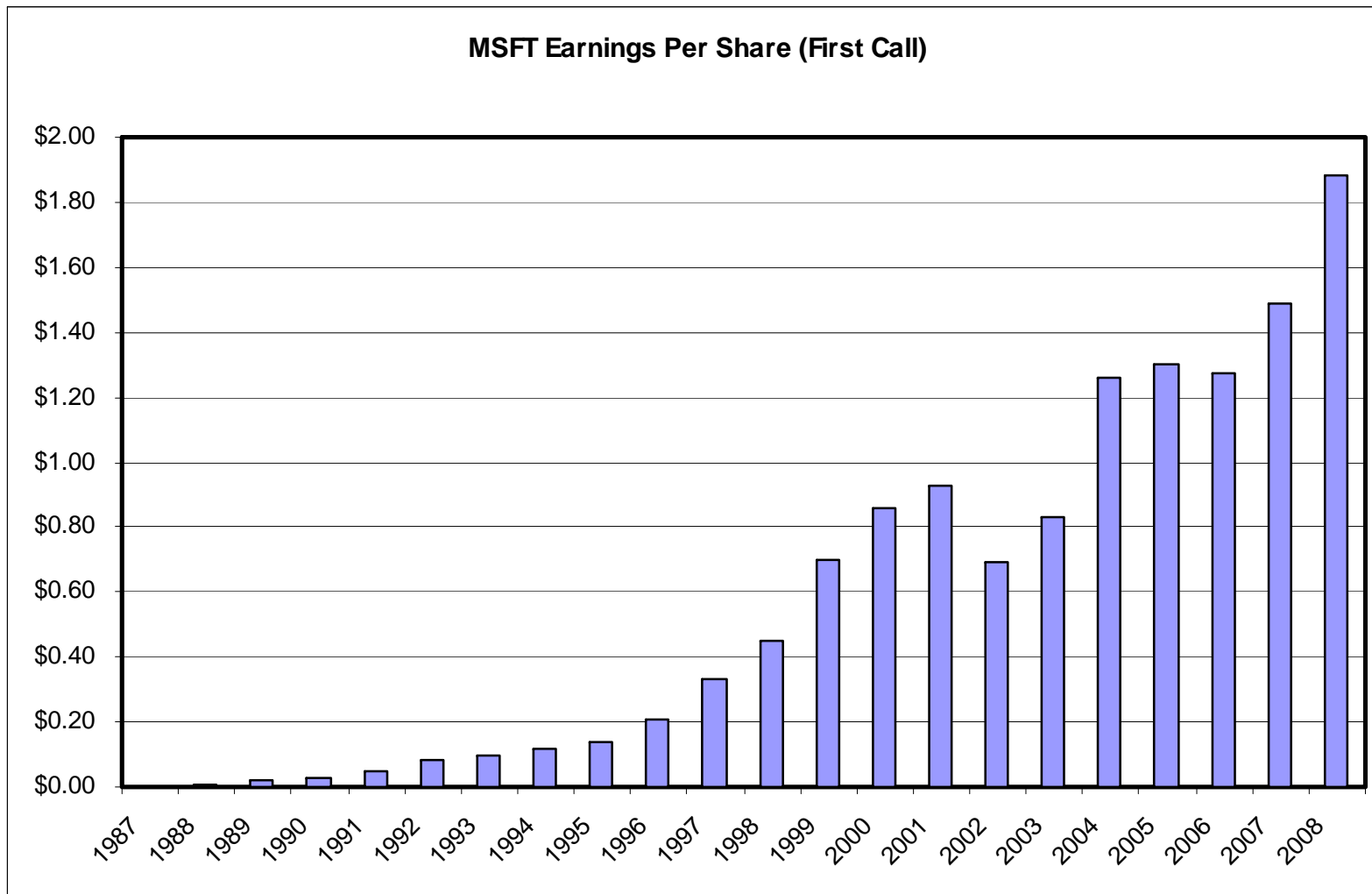
Microsoft Corp. (MSFT)

Balance Sheet (in Millions)

- ❑ Total Assets = \$72,793
 - ❑ Current Assets = \$43,242
 - ❑ Cash = \$10,339
- ❑ Total Liabilities = \$36,507
 - ❑ Current Liabilities = \$29,886
 - ❑ Other Long-Term Liabilities = \$6,621
 - ❑ Long-Term Debt = \$0
- ❑ Shareholder's Equity = \$36,286

Microsoft Corp. (MSFT)

Long History of Profits and Dividends or Stock Buybacks



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Nordstrom Inc. (JWN)

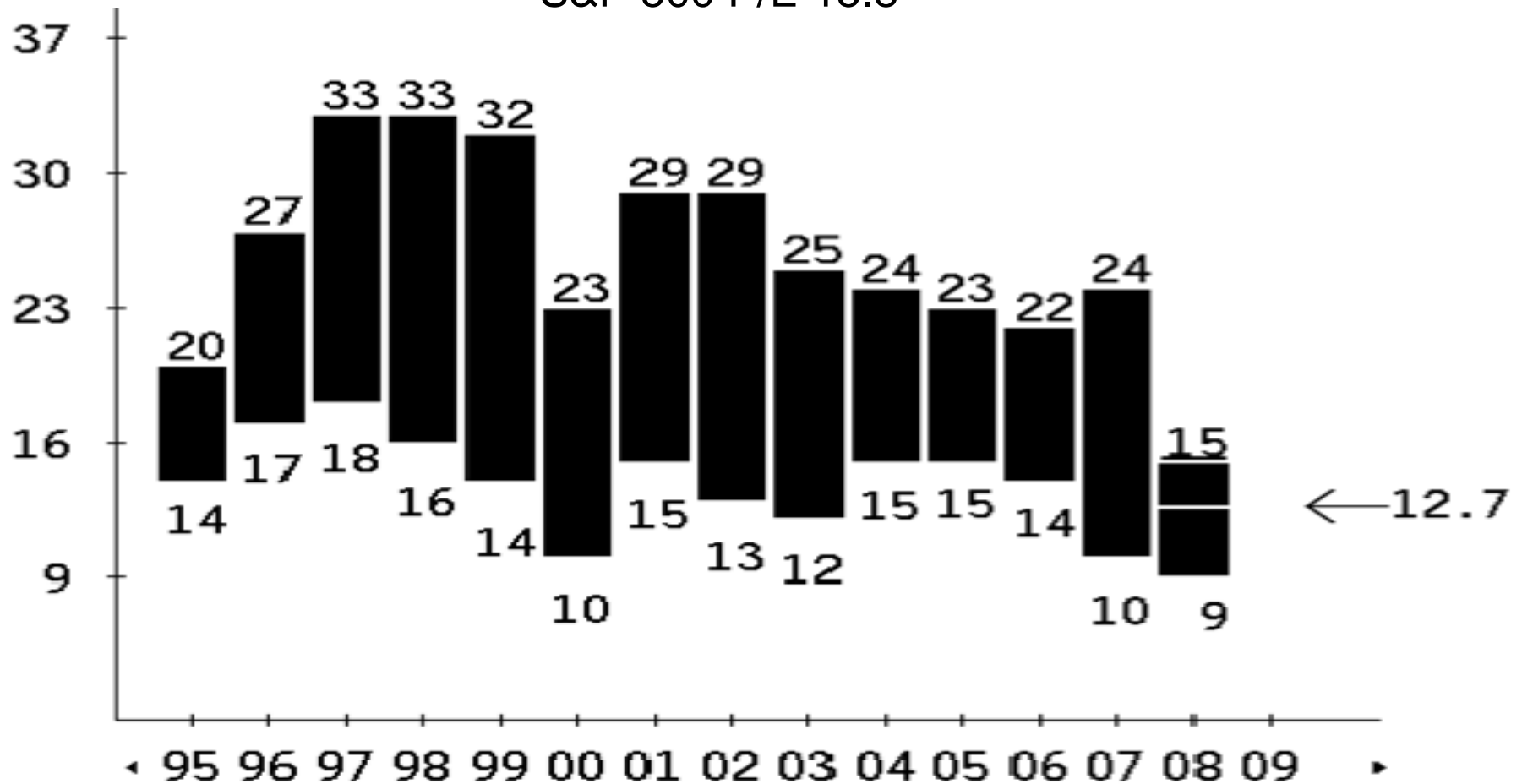
Meets an Economic Need

- ❑ What do they do?
 - Provides apparel, shoes, cosmetics, and accessories
- ❑ Who do they provide it to?
 - ❑ Men
 - ❑ Women
 - ❑ Children
- ❑ Retail Outlets
 - ❑ Nordstrom stores
 - ❑ Nordstrom Rack stores
 - ❑ Jeffrey boutiques
 - ❑ Catalog Business
 - ❑ Nordstrom.com
- ❑ As of September 4, 2008, the company had 159 stores located in 28 states.

Nordstroms Inc. (JWN) Available at a low price

P/E Range

S&P 500 P/E 15.8



Northwest Stocks: Under the Microscope

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Starbucks Corp. (SBUX)

Strong Competitive Advantage

Who's the #2 competitor to Starbucks?

Peet's Coffee & Tea (PEET)

Market Capitalization = \$353 million

(as of 9/10/2008)

Starbucks' Market Capitalization = \$11.0 Billion

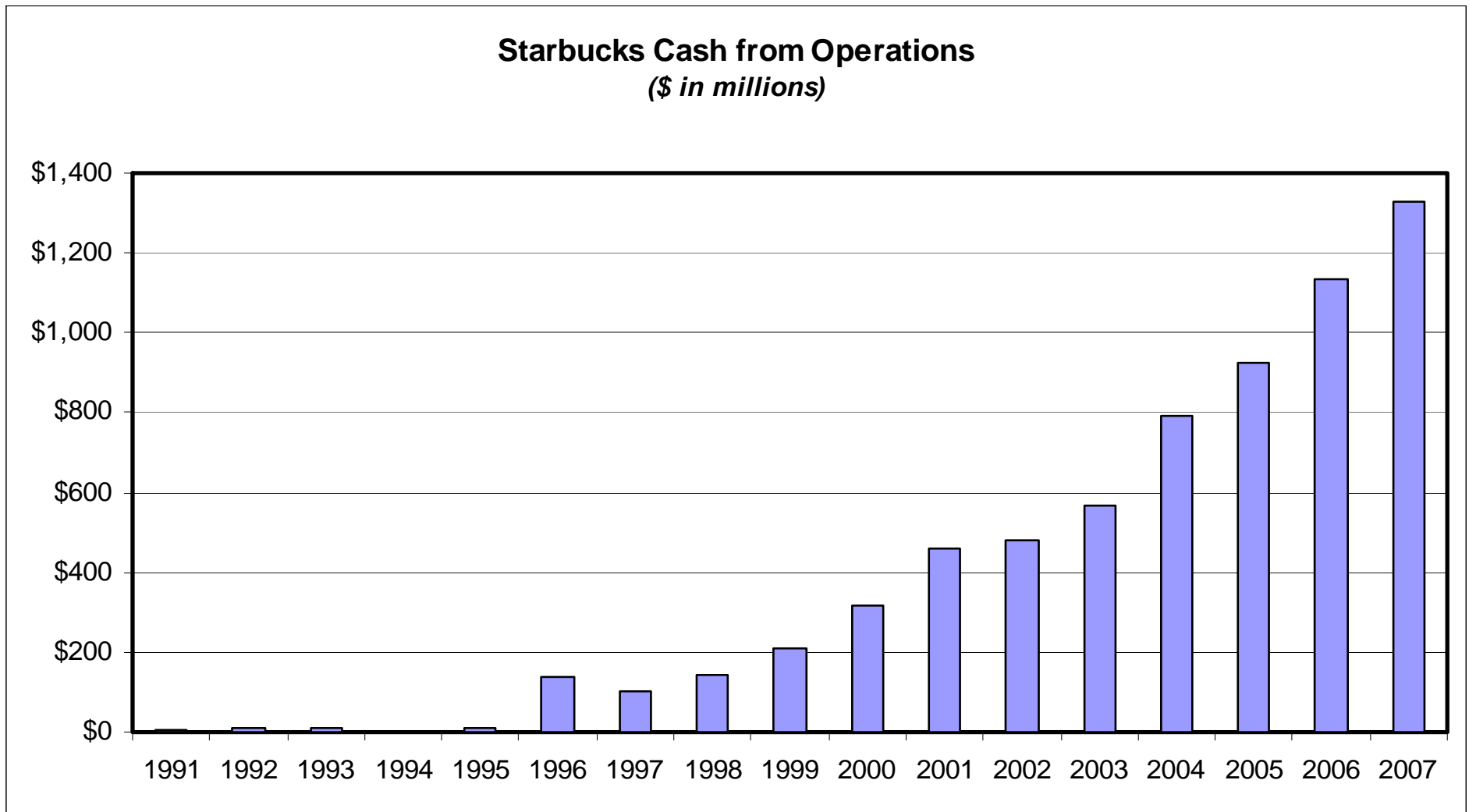
(as of 9/10/2008)

Even Coke had it's Pepsi.

How tough does competition look?

Starbucks Corp. (SBUX)

Generates High Levels of Free Cash Flow



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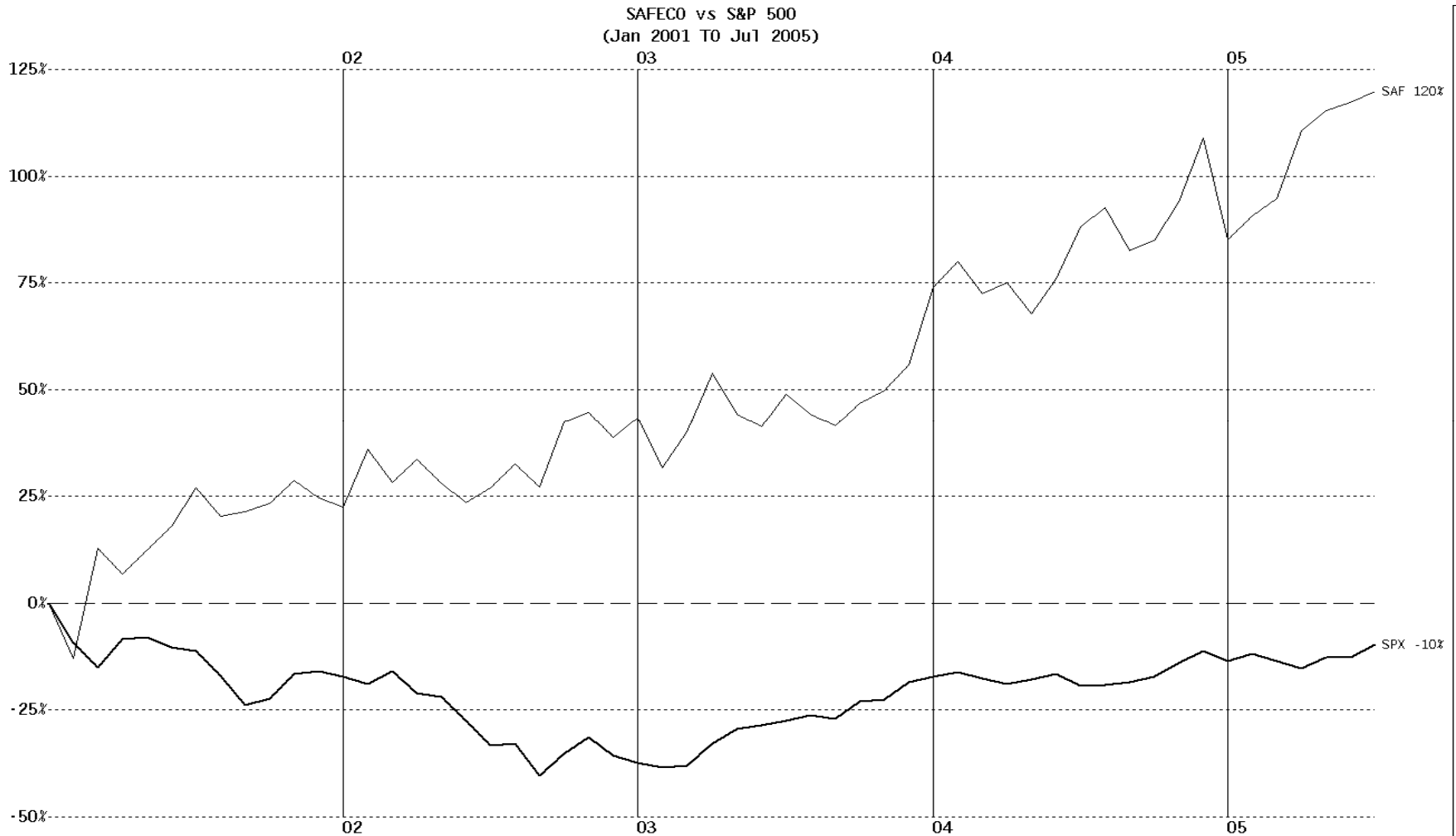
XL Capital Corp. (XL)

Strong Insider Ownership

- Recent Insider Purchases -

XL Capital Corp. (XL)

Management's History of Shareholder Friendliness



SAF from Jan 01 to Jul 05 (Mike was in place during roughly this period)

Top Ten Holdings

Capital Appreciation

(as of 6/30/08)

Company	Weight
Microsoft (MSFT)	7.5%
Merck (MRK)	6.7%
Amgen (AMGN)	4.8%
Disney (DIS)	4.8%
Accenture (ACN)	4.7%
Sallie Mae (SLM)	4.7%
Legg Mason (LM)	4.5%
Starbucks (SBUX)	4.5%
Verizon Comm. (VZ)	4.5%
AT&T (T)	4.2%

Total Return

(as of 8/31/08)

Company	Weight
Merck (MRK)	7.1%
Microsoft (MSFT)	6.5%
Amgen (AMGN)	6.3%
Verizon Comm. (VZ)	6.1%
AT&T (T)	6.1%
Disney (DIS)	4.9%
Accenture (ACN)	4.7%
Walmart (WMT)	4.7%
Pfizer (PFE)	4.5%
Abbott Laboratories (ABT)	4.1%

investing inspiration



William W. Smead

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