



Mid-Quarter Newsletter

November 15, 2008

From My Corner

Jeff Mengis – President

2008 is coming to a close, and for those of us that are in the markets, it cannot end soon enough. As you are aware, the markets are significantly lower to-date due to the system wide deleveraging of our economy. While at this point, our composite average has outperformed the benchmark S&P 500 index, it is little consolation to see asset values trading at their current levels. We continue to work diligently to own strong companies that will weather this financial storm over the long-term.

The longest and most expensive election in the history of the world has finally ended. There is some debate whether an Obama presidency will raise taxes during a severe recession, but we are inclined to take him at his word. We wanted to discuss the potential impact that higher income and dividend taxes might have on your investment portfolio. A repeal of the dividend tax cut combined with an increase of the top tax bracket would likely increase demand for municipal bonds. Currently, municipal bonds are yielding about 1 percent more than treasury bonds before tax, which is unusual. The after tax yield on municipal bonds is significantly higher, and higher still if the income tax rates were to increase. At current rates, we feel municipal bonds are attractively priced relative to treasuries and may offer a good investment for some portfolios.

We will be sending your 2008 tax information along with our 4th quarter reports in January. If you have had an unusual or significant tax event, you should contact us soon. This will allow enough time to make the appropriate portfolio adjustments if necessary.

During the Holidays, we will be out of the office on Thanksgiving, Christmas and New Year's Day. The office will also close early with the markets on the day after Thanksgiving and Christmas Eve. Included in this newsletter is our Mengis Capital 2009 pocket calendar for your convenience. We hope that you enjoy your Holidays with family and friends and look forward to working with you during the New Year.

Investment Focus:



Amgen is the largest independent biotechnology company in the world. It markets drugs in the fields of hematology, oncology, and inflammation. We previously profiled Amgen in May 2006 and wanted to highlight the company once again because we feel it may be headed for another growth cycle driven by a robust product pipeline.

Amgen's advances in cellular and molecular biology have helped produce five of the world's best selling biotech drugs: Aranes/Epogen for anemia, Enbrel for rheumatoid arthritis and Neulasta/Neupogen, which stimulates the immune system. In addition to their existing products, they have a strong pipeline including Denosumab with an estimated potential market of \$5 billion by 2010. Beyond that, Amgen has 10 new drug candidates for cancer, dialysis and diabetes that are in phase 2 and 3 drug trials. The market has begun to price in the impact that democratic control will have on Medicare. Fortunately, as Amgen's product portfolio becomes more diversified, it lessens the impact of Medicare's pricing power.

The stock currently trades at approximately 15x 2008 consensus estimates of \$3.95 per share and 13.4x 2009 consensus forecasts of \$4.40 per share. With earnings projected to grow 15% over the next 5 years, we feel the stock is appealing at these PE multiples. As of September 30th, Amgen is up 27.6% year to date, which is a remarkably strong performance in this market. Despite the increase in its price, we feel Amgen's stock is still attractively valued given its growth prospects.

