



Broadleaf Partners, LLC

Bubbles, Barron's & Broadleaf

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The study of investment bubbles is getting a lot of press these days, so much so that [Friday's Wall Street Journal](#) discusses how the subject has become a hot topic among young academics.

My experience with bubbles has been less academic and more real. In August of 2000, Barron's wrote a [cover story](#) on the strong performance of a technology fund I managed at the time. While the fund's mandate required that I invest solely in the technology sector and keep cash positions at a low level, I still felt some anxiety as new cash poured into the fund, peaking at nearly \$50 million a day on a few occasions.

Needless to say, my fifteen minutes of fame lasted just shy of two and my framed copy of the article now serves as a reminder that the ensuing pain of a bursting bubble can far exceed the ecstasy of participation in an inflating one.

When we launched our [blog](#) ten months ago, one of the [first posts](#) we made was in response to a three part question from a reader on the advisability of bubble-based investing. (The link points to the first of the three answers, but please read all three if so inclined.)

Jeff Travis and I started [Broadleaf Partners](#) nearly three years ago. In doing so, we sought to craft a process for investing in growth stocks that would help us avoid or at least minimize the downside risks of future bubbles. While investing in a sector trading at triple digit P/E ratios isn't advisable, the recent bursting of the housing and banking bubbles also shows that going the "cheap" route doesn't much guarantee one's safety either. Fund flows gone wild and unbridled greed may be better indicators, but successful discernment can often prove difficult.

Our conclusion, therefore, was this. Above all things, we believe it is important to "broaden" one's portfolio exposure to more than a few securities in a few industries and to achieve a balance where success isn't tied to hitting grand slams all the time. We like to compare our [investment process](#) to caring for a garden; occasional pruning, weeding and transplanting can help maintain a healthy portfolio and at the very least, keep it from becoming an unruly and overgrown mess where disease can fester and sometimes prove fatal.

As we approach the third year anniversary of our investment track record, our approach has been working. We have managed to outperform our performance goals since inception and declined less than the overall market

during the recent two-quarter downturn. While we will have our share of mistakes, we won't tempt fate.

We may invest in bubbles, but we won't harness our ultimate success to them.

Kindest Regards,

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