Economic Update

Broadleaf Partners, LLC

Chocolate and The Mathematics of Loss
April 21, 2010

During the depths of the downturn a little over one year ago, many investors were quick to provide a lesson on the mathematics of loss. A 50% decline would require a subsequent 100% gain – not a 50% gain – to get back to even. Such truths, it seemed, were a justification for remaining bearish and a comfort perhaps to some, in making the painful decision to sell. Unfortunately, while the mathematics of loss is indeed an investing truth, it may also be an author of lies by suggesting that the only investor goal worth its salt is "getting back to even".

A year ago, very few folks in my shoes would have guessed that a one hundred percent gain might be a possibility in the next year, two or even five. When asked for my opinion on the "mathematics of loss" and how long it might take to get back to even, I often suggested five or more years. This rudimentary guess was based on the history and experience of living through the tech stock boom earlier last decade when it took the S&P 500 seven long years to attain its former 2000 highs.

A few investors would respond at the time that this guess seemed aggressive based on the observation that the NASDAQ still remained 50% off its 5000 level highs ten years later. To this reply, I would usually make a couple of comments and then share the story of a wager I made seven years ago. First, the NASDAQ was and remains heavily concentrated in technology stocks and is therefore not as representative of the economy as a whole as is the case for the more diversified S&P 500. And second, the valuations of many technology stocks – for those that still exist - far exceeded those attained by the contributors to the market's bubble in 2007.

In 2004, I told a local family that I would take them to Nevis - a Four Seasons equipped, West Indies Caribbean Island - when and if the NASDAQ returned to its all time high of 5000. In contrast to the market at large, the wager stands given the reasons stated before, my view that it may remain decades away, and once achieved, an expense I will much more easily afford.

At the same time, it may be worth mentioning the old adage that good investors invest in a market of stocks rather than a stock market. Just as a swimmer can drown in a lake with an average depth of two feet if they happen to fall in its deepest area, so too can an investor achieve outsized gains in a flat market if you're looking in the right areas.

According to work done by JP Morgan last week, 30% *of the S&P 500 companies have already exceeded their prior peak in earnings per share* and of those companies that have reported quarterly earnings so far, *77% are now generating year over year revenue growth.* Of the companies we own and are considering for

our portfolio, a surprising *37% are back to or very near their all time stock price highs*.

Each and every day I track the performance of our portfolio and its holdings against the S&P 500 from recent market highs, lows and calendar year dates. Much to my surprise, on April 15th of last week and again today, the Broadleaf Growth Equity portfolio had officially doubled off the market's March 9th, 2009 lows. In other words, had you invested in our composite at that time, you'd be up 100% net of fees. (*Please see accompanying performance disclosures*.) For comparison purposes, the S&P 500 is up a sharp 83% since that time.

I would, of course, have scoffed at anyone who would have believed that the "mathematics of loss" could be overcome in such short order, but that is in fact what has happened.

For those who invested at the S&P 500's peak, the index still remains 20% off its breakeven level even after an 83% run. It has been about thirty months since that prior peak, which might suggest that breakeven could be another four years away. While we've come a very long way off the market's lows, this may suggest far more about just how oversold things had become than how overbought things are today.

I think 1250 on the S&P 500 remains a reasonable target for the market this year – roughly its level when Lehman Brothers collapsed eighteen months ago. At the same time, I'm forced to recognize that positive surprises can indeed occur. Given the large run in the market and in the spirit of its existence as a market of stocks rather than the other way around, we're incrementally focused on those companies and industries that have fallen behind, but which we believe would have every chance of playing catch up if the economy proves as strong as we believe it to be.

As for chocolate in the title? If you've made it this far, it has served its purpose. Had I stuck with just "The Mathematics of Loss", I'd have lost you at hello.

Kindest Regards,

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Performance Disclosures

Portfolio performance reflects Broadleaf's Growth Equity Composite since the market's bottom on 3/9/2009. All figures are shown net of actual fees. Any assumed fees have been calculated on a pro forma basis, reflecting the highest fee levels that Broadleaf would charge clients per our disclosures in Part II of our Form ADV.

Results reflect the actual performance of Broadleaf's Growth Equity Composite. Performance data is shown net of advisory fees and trading costs. Broadleaf may charge different advisory fees to clients based on several factors, but primarily based on the size of a client's account. Broadleaf's basic fee schedule is available on its Form ADV, Part II. Results reflect the reinvestment of dividends and distributions, if any. Leverage has not been utilized. The U.S. Dollar is the currency used to express performance.

Broadleaf's Growth Equity Composite includes all fully discretionary accounts utilizing our growth equity style of investing, with a minimum initial account size of $100,000. (Prior to 6/30/2009, the minimum account size necessary for composite inclusion had been $250,000. Historical results have not been updated retroactively to reflect this change, but will reflect the change from 6/30/09 forward.) To be included in the composite, an account must have been under management for at least one full quarter. If a significant cash flow in an underlying composite account during the quarter causes it to deviate from our intended growth style, we will remove the account for the period in which the significant cash event occurred. A significant cash flow is currently defined as 10% or more.

The S&P 500 Index has been used for comparative benchmark purposes because the goal of the stated strategy is to provide equity-like returns. The S&P 500 is a broad based index reflecting the performance of the equity market in general. The stated S&P 500 return includes dividends. While we believe the S&P 500 is an appropriate benchmark to use for comparison purposes, it should be expected that the volatility of the Broadleaf Growth Equity Portfolio may be higher due to its concentrated nature.

The performance period highlighted reflects a period of slightly more than one year for both our portfolio and the index, following a period when the markets were under extreme duress. This period of time chosen is entirely atypical and has only been shown to illustrate the magnitude of a rebound. Such performance is not sustainable.

You are further cautioned that information concerning comparative performance over this period of time may bear no relationship whatsoever to performance over a longer period. This information should not be regarded as in anyway representing the likely future performance of the portfolio in absolute terms or in comparison to the indices. Investment in securities, including mutual funds, involves risk of loss. Past performance is no guarantee of future returns.

Broadleaf Partners, LLC is registered with the SEC as an investment advisor. The firm maintains a complete list and description of composites, which is available upon request.