



Falling from Grace, Job Loss, and War

June 10, 2008

Over the last few days, a number of thought provoking data points came across my desk. I thought I'd share, for what it's worth.

Financials' Fall from Grace. Consistent with the behavior of other sectors suffering from a bubble based implosion, financials have fallen from grace. A few weeks ago, the sector had the largest representation within the S&P 500, but continued pressures and write downs have caused it to decline to nearly the third largest concentration. If the past is any guide, it can take a few years for a sector to return to some semblance of fundamental normalcy and much longer for stock prices to recover. We remain underweight financials.

Job Losses. JP Morgan took a look at the large .5% surge in unemployment last week and asked what history would suggest for the stock market going forward. While I am sure there are ways to take issue with this particular study, I was frankly a bit surprised by the findings. Since 1950, the Dow Jones has surged 30% on average anytime the unemployment rate jumps more than 50 basis points. Never has the Dow had a negative return over the next 12 months and the range of gain has been 10-44%. While I knew unemployment was a backward looking indicator, it was interesting to see our perceptions quantified. Barring a major depression like we had in the 30's, history would suggest that better skies are just around the corner.

War. While we have participated from the run up in oil prices through our energy and industrial holdings, readers also know that we remain suspicious of the asset class in recent weeks and believe investors would be well served by taking an inventory of their exposures. Barry Bannister from Stifel Nicolas has made some excellent long term calls on the energy complex over the last few years and contrary to our more recent thoughts, remains a long term bull. We admire his work and have followed him closely. In his studies of oil cycles, he points out that their bull market phases typically last 14 years and that such cycles reoccur with near rhythmic frequency about every 20 years later as depreciated equipment and rising demographics require modern upgrades. Historically speaking, what has been the factor that ushers in oil's precipitous fall? War.

Falling from grace, job loss and war. Hush-hush subjects that didn't seem right for sharing on a Monday.

So I kept them 'Til Tuesday.

(Anyone know where Aimee Mann is these days? GREAT song.)

Kindest Regards,

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