Economic Update

Broadleaf Partners, LLC

Revisiting Lows

January 14th, 2009

After enjoying a nice twenty percent rebound from November 20th through the first week of this year, the markets are pulling back aggressively once again and threaten to test their prior lows. The reasons are always difficult to pinpoint, but the fact that we are headed into earnings season probably has as much to do with it as anything else. Many would be buyers are likely on strike, preferring to wait for the news than guess on what has already been discounted. With a scarcity of buyers, prices get marked down to ensure some semblance of liquidity for those who need it.

This back and forth, trading range based action will likely become commonplace for most of 2009. We will likely see one or more nice bear market rallies and then aggressive sell-offs as potential catalysts for uncertainty approach. Our best advice for dealing in this environment is to be realistic with regards to personal, short term needs, tactical and incremental with regards to near term portfolio change, and long term with regards to investment trends and horizons.

So what does this mean?

As we stated in late summer when the bear market rally started to become ugly, every investor's first responsibility is to themselves and their family. To this end, in an uncertain employment environment, make sure you have access to a year's worth of liquid savings. If you do not have it now, do not make radical changes all at once, but incrementally over a period of months to build your cash cushion, from whatever sources exist. The truth of the matter is that if you do not survive the short run, the long run will be hard to reach.

Tactically speaking, we repeat our view that the market will likely remain range bound between its prior lows of 740 on the downside and 1100 on the upside, until the economic fundamentals visibly improve. We seem to be in a down phase towards 740 as we write today's entry. Of course, we have no idea if this low will actually hold - still about ten percent lower from current levels - but we take some comfort that it marked the low for 2008, a year that had a ton of very bad fundamental news, including several high profile bankruptcies, high stakes corruption, and severe liquidity squeezes.

Our plan of action calls for positioning the portfolio for an eventual long term recovery in the economy, within the constraints of a likely trading range. This means we will likely trim positions more aggressively as we approach the higher end of the range while hopefully maintaining the courage and fortitude

to add back to or increase our positions at the lower end of the range. Of course, all of this is much easier said than done, but it remains our intent.

Over the long term, however, we remain primarily interested in investing in companies that are leveraged to longer term, defensible trends. While almost all companies are showing some signs of cyclicality in their business given the dual nature of the credit driven recession, the fact remains that over the long term, innovation will absolutely thrive in this environment as pain makes clearer our most pressing needs as a society.

Times are tough. But as we said in our year end commentary, do not allow the headlines to get you down. Many perfectly happy people around the globe do not even know that the stock market exists.

Kindest Regards,

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