Economic Update

Broadleaf Partners, LLC

Something for Nothing, Free Lunches and Fool's Gold

March 12, 2009

On the positive front, the market posted a solid 4% gain today. Retail sales, excluding autos and gas, were up a surprising .5% month to month, clearly much better than the market had been expecting particularly in light of all the job losses.

While discounting is playing a role here, it is encouraging to know that price may be influencing consumer behavior. Consumer discretionary shares, which include the retailers, are known as early cycle plays because they have historically been among the first to show signs of life leading the economy out of recessions. In this light, the retail sales data may pack a little more punch in sustaining a run that many technicians now believe has legs.

Our game plan remains the same; the markets are due for a bear market rally and will likely see several throughout the remainder of this year. If you can muster the courage to buy here, do it now rather than waiting to get more comfortable after a strong run.

On different note, I've been thinking that a great many of our problems today stem from making promises that should have never been made in the first place. We are a society that has become obsessed with insuring everything. We want to win big, but are only willing to risk little. We want "something for nothing" and covet our "free lunches". We cling to the notion that alchemy exists, though we call it by another name. Somehow, the notion of social progress blinds us to the fairy tales we create for ourselves.

Many airlines hedged their energy supplies last year at prices sharply above current levels. These hedges are now significantly underwater. I read recently that a chicken company went bankrupt because they locked in higher prices, while another, Sanderson Farms, remains viable because they elected not to. Many natural gas producers have hedged their future production levels in the $10 range, but with prices now as low as $4, one wonders what they will do when 2010 arrives and the hedges run dry. AIG made so many huge counter party promises that the government had no choice but to bail them out several times over, in spite of having at one time an investment grade balance sheet and stellar insurance reserves.

A while back, someone talked to me about variable annuities for my mother in law. These investments promised equity like returns on the upside, but also guaranteed that her losses would be limited on the downside to half of the market's. In my mind, the product seemed expensive, but was also quite alluring given its promises. And then it hit me. Was it too good to be true?

If I were ever caught guaranteeing an equity rate of return for clients, I can assure you that the SEC would be quick to throw me in jail or at the very least, risk uncovering an eventual Madoff scheme at some point down the road. A pattern of simple, neat equity returns? Surely, fool's gold.

If we are indeed on the eve of a strong market rally and you've ridden it all the way down, take care not to be too hard on yourself. In fact, take some time to feel good about it. You've invested the old fashioned way.

You've earned it.

Kindest Regards,

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