Economic Update

Broadleaf Partners, LLC

Valleys, Foothills and New Mountains
April 6, 2009

It's hard to believe, but last week was another great week for the markets, the second in a row. Let's hope it's habit forming! So now what?

Our basic premise remains the same. While the S&P 500 briefly violated its 740 lows this quarter, it may have seen the devil itself at 666, when it made an aggressive about face and returned to a more heavenly 800 by quarter end. We continue to believe that the index will likely trade in a range of 740 and 1000 for the remainder of the year.

No one knows, of course, whether the current rally is sustainable or simply another in a series of bear market rallies, but we can't help but be encouraged by recent economic indicators. The ISM index of leading indicators, released on April 1st, increased for the third month in a row and the new orders component of the survey ticked over forty for the first time in seven months. China's leading indicators also appear to be showing signs of life.

Pending home sales were up in February, with one survey improving for the eleventh week in a row and auto sales seem to be stabilizing as well. The Washington Post/ABC Consumer Sentiment Survey, established in the early 70's, showed that 42% of consumers see the economy moving in the right direction, the highest level since 2004 and a significant increase from the record low of just 8% in October of 2008. And while jobs are scarcer, the good news is that inflation adjusted pay, thanks to declines in many commodity prices, is actually at record levels.

On the negative side, new unemployment claims increased to more than 750,000 this week, the highest level that the ADP survey has ever seen -- although not its greatest percentage gain. Fortunately for the markets, unemployment tends to be a lagging indicator and usually increases - sometimes considerably - even after the economy and the markets have officially bottomed. We continue to believe that the unemployment rate, currently at 8.5%, could move as high as ten percent in this recession without causing us to revisit our overall game plan of investing now for an eventual upturn in the economy.

We've made an historical descent in the past year and a quarter and are now in a valley hiking among the foothills of what will eventually become tomorrow's new bull market.

There are still new mountains to climb.

Kindest Regards,

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