



Broadleaf Partners, LLC

Bad Weather or Bad Clothing?

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We are no doubt living in uncertain times, the likes of which most in North America and around the globe haven't seen in nearly a century. These risks and uncertainties are almost of biblical or medieval proportions. A global "plague" shuts down the economy driving supply shortages across a host of products, inflation spikes to levels not seen in decades, and now, "rumors of war" leading to actual war.

The playbook just keeps getting more interesting.

Typically, heightened geopolitical concerns have rarely affected the markets for more than a few days or weeks. But when they are generated by Russia, a nuclear power, wantonly attacking the sovereignty of neighboring Ukraine via only conventional means to date, it becomes difficult to claim that we have any sort of edge or insight. All the same, we wouldn't want our silence to give the impression that we're not thinking at all.

We're always thinking and sometimes, when times call for it, we act.

While we'll refer our readers back to our [Investment Playbook](#) published just six weeks ago, Putin's actions in Ukraine likely exacerbate the risks that were already trending at that time. Inflation is a real concern, interest rates are likely headed higher, and supply chains remain a mess. The war in Ukraine will only increase the effects of these volatile variables already in play.

At the beginning of the year, we mentioned we were more diversified in our portfolio than we had been in quite some time. While the Innovation Cycle has nearly been the exclusive driver of wealth creation in the past ten years, variables associated with the Economic Cycle have come to life in the past year, and with it, our presumption that further gains might come from areas long silent.

Who would have guessed that new positions in energy stocks and even a fertilizer company would be our portfolio's greatest gainers in the past year? Had you told us we might sell our PayPal and Facebook positions to fund the likes of Lockheed Martin, CF Industries, and Schlumberger a year ago, I might have said you were crazy.

But we're glad we did. Times change and on some occasions, so must we.

There are those who have wondered in recent months, and even asked us, whether or not we've changed our approach, whether we've "style drifted". We can say with absolute certainty, that

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no, we have not. Our overarching investment philosophy, has for years been on full display on our [website and in our institutional brochure](#) for those curious to learn more.

We've always said that three factors or cycles generate "value" in the markets for investors over time...the Economic Cycle, the Innovation Cycle and the Credit Cycle. We've even claimed that of these three factors, the Economic Cycle can often have the most pronounced effects in any given time horizon. This factor, though dormant for years, has seemed to come back to life.

After the bursting of the tech bubble in 2000, new relative "growth" opportunities availed themselves in housing and financial stocks that lasted several years. Just as the bursting of the tech bubble gave rise to relative growth opportunities in these areas, so too could the pandemic, excessive ESG mandates, and now war give rise to relative growth trends in new areas.

Am I panicky? No.

Almost a year ago, I was a bit nervous, but in reaction to that anxiety, we made some changes to the portfolio, which have served us well today. That doesn't mean that we're not down on the year -- we are -- but it does mean that had we not acted on the mild PTSD we experienced at the time, we might be in far worse position than we are today. According to our analysis, on a year to date basis, we are doing better than 80% of our growth peers, a fact which we attribute to taking action where we discerned it advisable.

It seems clearer to me that we've got a unique situation today, where inflation is messing with patterns in economic variables that seemed to be set in stone for so many years, perhaps even most of my 33-year career. The war in Ukraine only seems to have accentuated these differences even more.

It is my belief that we don't have a demand for goods and services problem as much as a supply problem. Classically, the Fed has raised rates to slow the economy when it gets overheated, to reduce demand and take the heat off the boil. The markets, particularly the more highly valued areas with speculative business plans and often no earnings, have been hit exceedingly hard in the past year as the likelihood of rate hikes has grown.

Cathie Wood's ARK fund trajectory reminds me of the early years in my career, when I enjoyed a similar fifteen minutes of fame on the covers of financial rags and television. Make no mistake. I respect Cathie Wood. She is right in suggesting that innovation is responsible for most wealth creation over the long haul. But that doesn't mean that other factors can't also play a role, that times change, or that greater diversification may, at times, render benefits rather than costs.

Sensing that some monumental shifts might be underway, we gradually started to make some shifts in the portfolio, a process that we will continue to undertake as we see fit. The Credit Cycle, "fund flows gone wild", kept us from chasing many of the SPAC's that captured the markets attention during the pandemic. The boil has come off these areas, and some of that money may be seeking a new "growth" home at this time, in areas that are growing in the here and now, short duration versus ultra-long.

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Ten years ago, on the whiteboard in my office, I wrote down the heading Deciding What to Cover, with the following three bullet points.

- 1.) Is it an important provider of sector knowledge?
- 2.) Is it something worth investing in? i.e. an alpha generator
- 3.) Is it a unique innovator worth tracking for the future?

Most people are not aware of the significant time and effort taken on our end reading financial statements and conference calls for companies we don't even own. We have done this religiously, almost to a fault over the years, not because it is necessarily fun or where the financial "glamour" exists at the time, but perhaps so we can take quicker action in such times as we find ourselves today.

As an Eagle Scout, I learned to "Be Prepared" in my youth and to take actions that might not benefit me at that particular moment in time, but by undertaking reps, might prepare me for a day when needed the most. Mom made me mow the lawn not when I wanted to, but when I could, when it wasn't "raining". She was harsh at times, but in hindsight, perhaps she was just loving me in ways that have become counter-cultural relics of the past.

A few weeks ago, I went "winter" tent camping in zero-degree weather for the first time in nearly thirty years. Our Scoutmaster reminded me that that there isn't "bad weather" only "bad clothing". Well, for the most part, I'd be the first to say that when in bad weather, staying in the best available shelter you can - a heated home - is the most sensible and logical choice. But sometimes, perhaps even rarely, it doesn't work out that way. Sometimes, reality calls for adjustments. This doesn't mean pessimism has to win, just that an optimistic attitude and preparation for new realities might make the difference in enabling one to live for another day.

We're not sitting still nor have we bunkered down in a buy and hold at all costs mentality. We may get battered and we may be bruised, but we're prepared as best we can be. We are constantly assessing and adjusting, as our experience has taught us to do and as the courage of our convictions enables us.

For years, investing knowledge has appeared to be an easy game in a market that has only gone up, all the time. But true discernment lies in turning knowledge into wisdom. For me, such wisdom has often come from the pain of "touching hot stoves" in the past, but also, in a very real and "spirited" sense, from a God who nudges me in the directions I must go. Be calm. Stay silent. Listen.

Buckle up and be prepared for a continued ride, perhaps wilder still. There are no guarantees, but history has almost always shown brighter days almost always lie ahead. Call your advisor to make sure you're prepared. Don't click on html links that seem suspicious. And finally, consider the best way of easing your self-centered concerns - by giving back and serving others in the world right now.

A little over two years ago, my wife travelled to Ukraine to interview orphans for hosting here in America. Many of these orphans are now across the border in a neighboring EU country thanks

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to the executive director whom she travelled with at the time. She is there now, assisting them. They could use your help, if you are so inclined. (Did you really just click that link??? Lol.)

Kindest Regards,

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