

For those that may not have noticed, stock market volatility has been on the rise in October, with more up and down 1-2% days and powerful intraday moves than we've seen since the Great Recession. Weak overseas economies, fears over what rapid declines in energy prices could mean, and Ebola are just a few of the factors that have been used to explain the disappointing action.

Our take continues to be a more constructive one. While October has almost always been a generally poor performing month for the stock market, historically, the fourth quarter has generally been a kinder one, suggesting that better things could be in store for November, December and beyond. But before you become fearful that we're putting too much blind faith in technical trends, let's discuss some of the more fundamental drivers for our view.

As we've repeatedly stated in the past, weak overseas economies, be it China or Europe, are generally good for the United States, at least in the current dynamic. Why? Because it implies weak pricing in the commodity complex and thus a boost to our consumers' disposable income. It is no secret that China has overbuilt residentially and commercially, with far more than its share of global ghost towns and neighborhoods. While they will likely work through this oversupply, it should remain a structural overhang and a headwind to the commodity complex on a longer term basis.

Geopolitical concerns have also boosted the value of the dollar, which has likely led to further declines in commodities which are often priced in dollars. As bizarre as it sounds, we read this morning that Russia is concerned that its supply of dollars may be too low and may become a bigger buyer of dollars to help stabilize its weakening economy.

In addition to weaker international demand for commodities, our increasing domestic supplies of energy are also a net positive for US consumers. While Saudi Arabia's recent move to defend its global share of the oil markets could mean that oil prices fall to levels that make further gains in US production less economical, the fact remains that lower oil prices are good for our consumers, regardless of the source.

Recent high frequency macroeconomic data remain positive for the US economy. New unemployment claims fell to 264,000 this morning, a level that hasn't been seen since the year 2000. Industrial production was up 1% for September, ahead of expectations. Earnings season has just gotten started and while there have been a few disappointments from the likes of Juniper and Microchip, the bulk of results have been just fine. From financials to technology, nothing would appear to signal an imminent recession in the United States.

As some of you know, we categorize our holdings in several different ways and then put them in baskets to get a picture about what our portfolio of holdings and others we follow might be telling us about the overall economic climate. In general, we classify our holdings' primary influences as either economic in nature, innovative in nature, or credit driven in nature. The action of the innovator basket often provides a key signal to the nature of corrections, as innovators usually hold

up well in most economic environments (other than recessions) since their product markets are often far from mature and thus not as prone to the ebb and flow of the overall economy.

While we hope we don't jinx ourselves, our innovator basket of stocks has held up very well in this recent downturn, consistent with a fear and liquidity driven market more than one concerned about an imminent recession. We've taken our share of lumps to be sure, but thanks to our innovators, we've held our own and remain among the top large cap growth performers on a year to date basis.

Another indicator that things may be getting ready to turn could be the action in small cap stocks in recent days. The small cap area has been clobbered more than most this year, perhaps due to concerns over Fed rate hikes. We suspect that weakness overseas likely means the Fed will remain more dovish than hawkish in the coming months, wanting to be sure that our domestic recovery remains intact. Over time, this should be good for small cap stocks, which also tend to be more exposed to our domestic economy than our multinational, large cap corporations.

The arrival of Ebola to our shores has certainly heightened anxiety levels in the population at large, but like geopolitical flare-ups, it is the type of risk factor that's not only hard to measure but also very difficult to time as an investment decision input. Fortunately, the United States may have a potential cure which should be of some comfort to the families of those facing the disease as well as another reminder of our country's many blessings.

In summary, the month of October is usually an ugly time for the stock market and this one, so far, is no different. The recent declines in commodity prices should prove to be a positive influence on leading economic indicators reported early next year, a continued positive tailwind for the markets. Our economy continues to improve, with solid earnings, improving employment, and favorable inflation trends.

In short, we're in a moody market, one which isn't nearly as bad as it may feel. While we may tweak things here and there as we always do, we see no need to make wholesale changes.

Better days yet lie ahead.

Kindest Regards,

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