



Broadleaf Partners, LLC

Finding Michael Phelps

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Yesterday, financial stocks were hit hard. A couple of high profile and perhaps well timed analyst downgrades of Goldman Sachs and the announcement of first time loan losses from JP Morgan certainly did not help matters. But perhaps more interesting is that the sell-off coincided with the expiration of emergency SEC rules banning short sales in a select group of nineteen financial stocks. For perspective, these stocks rallied as a group nearly 35% since the rules were put into place about a month ago. In a prior update we encouraged investors who had done well in bank stocks to mark their calendars on August 12th to see if the recent gains would hold.

Nothing much is new in the markets or the economy for that matter, with the exception of the crack in oil prices. We are in a slow growth economy and expect that it could be this way for as far as the eyes can see. In such an environment, those that can grow at superior rates are likely to be rewarded over time as are the occasional sectors that are out of favor, under owned, and -- at a specific moment in time -- oversold.

We would still be very careful with the financial stocks and only be buyers - and even timid ones at that - when the stocks are clearly on sale and approaching their technical lows. It takes a long time to work through the aftermath of a burst bubble. Even now technology stocks remain well off their 2000 highs in spite of some significant bear market rallies along the way -- including one significant one in 2003.

If you bought technology shares after this 2003 rally, you might still be underwater in many of them today, nearly five years later. You can certainly make money in these areas, but we would be very careful about chasing them after they have enjoyed a nice bounce.

Oil's decline of over 20% to \$113 is clearly new news for the market and a subject worth following. As we have stated many times over the past few months, we believed that the year to date run in oil was more reflective of speculation than anything else, driven onward and upward by what we have affectionately dubbed as "fund flows gone wild".

On our last CNBC appearance in early June, we stated our case that declining growth rates in overseas economies might be responsible for an eventual pullback in oil prices. Clearly, the markets have started to catch wind of this argument, with more and more folks discussing demand destruction. This morning we also read that T. Boone Picken's hedge fund - a man whose character we highly

admire -- was off 35% in July alone. Boone, of course, knows that getting rich is never a straight line process, but we suspect that isn't the case with everyone who was long oil at \$144.

With oil now at \$113, the argument for even lower prices isn't as easy to make. Related industrial-energy plays have reported very strong earnings reports and guidance in recent days, but their stocks have been hit hard over concerns that margins may be peaking and that a derivative action in such stocks based on the movement in oil prices may now be over. This is why we encouraged investors to not only review their energy holdings a few months ago, but to also more clearly understand the places in their portfolio that are exposed to oil but not in such obvious and apparent ways. Harkening back to the gold miner arguments of technology's halcyon days, if the gold miners catch cold, those who sell them their pick axes and shovels will eventually be hit as well.

If you have been watching the Olympics, you know that swimmer Michael Phelps is a rarity -- someone who is capable of going the distance, staying ahead of the pack, and winning even when his goggles are full of water. In times like these, finding a Michael Phelps for your portfolio is a solid approach. To be sure, it is a lot of fun to occasionally bet on an underdog 4X100 relay team, but do so sparingly and even then only when the price is right and the water beneath you is not too deep.

We will be on CNBC Monday morning, August 18th at 9:35 am and hope to provide our updated thoughts on the markets and our portfolio at that time. Please tune in if you can!

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