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JOLLIFFE CAPITAL, INC.
Registered Investment Advisor

**QUARTERLY
MARKET
COMMENTARY**
For the Cycle Quarter Ended
May 31, 2009

Eric Barden, CFA
Chief Investment Strategist

Financial Planning and Investment Management Services offered through
Jolliffe Capital, Inc., Registered Investment Advisor.

Securities offered through **Evolve Securities, Inc.**, Member FINRA/SIPC.

Martin J. Whitman, a professional investor for more than 50 years, said that as long as economies worldwide could avoid an outright depression, stocks were amazingly cheap. Mr. Whitman manages the \$6 billion Third Avenue Value fund, which returned 10.2 percent annually for the 15 years that ended Sept. 30, almost two percentage points a year better than the S.& P. 500 index. The fund is down 46 percent this year.

“This is the opportunity of a lifetime,” Mr. Whitman said. “The most important securities are being given away¹.”

Eighty-three year old Marty Whitman is one of the world’s great value managers. Something of a market timer, he has a history of carrying large cash positions when he perceives the market is too expensive. “Safe and cheap” is how he describes the companies in which his firm invests.

I hear a lot of over-the-top claims as to how cheap or expensive the market is. But, when someone as seasoned as Mr. Whitman claims that this is the opportunity of a lifetime you have to consider the possibility that the world isn’t coming to an end. To put his lifetime into perspective, consider that he’s lived through the Great Depression, World War II, Vietnam, Watergate, the oil embargo, the Latin American debt crisis of the early ‘80s, the crash of ‘87, the Peso crisis of the early ‘90s, the Asian currency crisis of ‘97, Long-Term Capital in ‘98, the technology bubble, 9/11, Enron/Worldcom and now this. He’s made a fortune over the decades for himself and his investors but today’s market is the best opportunity he’s ever seen.

The phrase “falling off a cliff” has been the go-to phrase to describe many of the latest economic reports. Auto sales, home sales, and stock prices have all taken the route made most famous by Wily Coyote. The government has now rolled out 22 different programs, all with very similar acronyms like TARP (Troubled Assets Relief Program), TALF (Term Asset-Backed Securities Loan Facility) or TAF (Term Auction Facility). Though you can still hear a few “falling off the cliffs” every now and then, the cliché that’s racing to the lips of news readers everywhere is “green shoots.” Referencing the first signs of spring, Federal Reserve Chairman Dr. Ben Bernanke said on 60 Minutes recently that he saw the green shoots of a recovery. Hopefully, this phrase is about to get as worn out as “falling off a cliff.”

Great mood shifts lead to great changes in market prices. Long, deep recessions lead to severe insecurity and panic. The more anxious investors become, the more stocks will rally when the mood begins to improve. Recent indicators show consumer confidence rallying as much as it has in 35 years.

It’s impossible to know when exactly psychology will shift for the better, but it will occur. We’ve had eleven recessions since WWII but we’ve also had eleven recoveries. Historically, the more painful the bear market, the more robust the subsequent bull market. It’s likely that Mr. Whitman is looking at the current level of investor anxiety as the reasoning behind his proclamation that this is the opportunity of a lifetime.

The credit crisis won’t go on forever. Think of it as a society-wide diet. We probably need to lose 20-30 pounds to get to our ideal weight. When we get back in shape our health will dramatically improve. The national savings rate is currently as high as it has been in ten years while the amount of debt outstanding is diminishing rapidly. We are losing weight, and as a result our economy is much healthier than it was a year ago. As the economy continues to get in shape, the green shoots of recovery should continue to grow until the recovery is in full bloom.

Generally, our growth portfolios held up much better than the overall market. During the last two months, the market experienced the best ten day rally in 70 years, and the best two month rally since the Ford administration. As we expected, our defensive positions did not rally as much as the market, while our economically sensitive stocks exploded to the upside.

During periods of extreme appreciation, generally the stocks that declined the most during the previous bear market appreciate the most. Over the next few months, as the market continues to recover, we will gradually increase our portfolio allocation to more aggressive “growth” oriented companies. In other words, we have been doing our best to invest in companies that are safe and stable but as the recovery turns the corner we will increase our portfolio’s allocation to companies with a greater expected return.

We are hopefully concluding one of the worst ten-year runs in stock market history. The best periods typically follow the worst periods. If that’s the case, happy days could last much longer than people expect.



A handwritten signature in black ink, appearing to read 'Eric Barden', written in a cursive style.

Eric Barden, CFA
Chief Investment Strategist

Mr. Barden serves as the Chief Investment Strategist for Jolliffe Capital, Inc. Eric has managed money since 1995, has been featured on CNBC and has been featured several times on Bloomberg television and radio. Mr. Barden holds a BSBA in Economics and Finance from the University of Texas.

¹ New York Times 13 Oct. 2008.