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JOLLIFFE CAPITAL, INC.
Registered Investment Advisor

**QUARTERLY
MARKET
COMMENTARY**
For the Cycle Quarter Ended
December 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.

2010 Forecast

Contrary to what you might have read or seen on the news, we are in the early stages of a new economic expansion. Economic growth is accelerating. Autos, housing, business equipment and especially inventories are propelling the economy forward. 2010 should see above average economic growth and above average performance for stocks.

Unemployment

Much of the media's focus has been on the unemployment rate. Fortunately, the unemployment rate tells us what has happened in the past (a lagging indicator), while the stock market tends to predict the future (a leading indicator). The latest unemployment numbers indicate that roughly 10% of the workforce is unemployed. This is higher than most recessions, but it's not unprecedented. It will likely take at least four or five years for unemployment numbers to fall to the 5% levels that typically coincide with the peak of economic growth. If the new expansion follows the trajectory of similarly deep recessions and recoveries, we will see a sharp pickup in employment over the next 12 months or so.

Corporate Profits

While Main Street is still feeling the pressure of the decline, all signs point to a sustained economic recovery. Given the high levels of unemployment, wage growth should occur very slowly. The combination of a sustained recovery, low wage growth and extremely low interest rates suggests very strong growth of corporate profits.

Inflation

Core inflation continues to gradually decline in spite of higher energy costs. High unemployment precludes any significant wage increases which is a requirement for excess inflation. Even though many observers stress the risk of deficit spending, the nearly unprecedented increase in private savings has so far more than offset the increase in government spending.

Economic Growth

Over the long-term, the economy grows about 3% annually. One-third of this growth comes from increasing population while two-thirds results from increases in the productivity of labor and capital. When the unemployment rate is high but decreasing, the economy tends to grow more rapidly than average. When unemployment is low and increasing, the economy grows slower than usual.

High current unemployment coupled with an improving economy suggests that unemployment will soon decrease. This implies stronger than average economic growth for at least 2010 and 2011. The question in 2010 is not whether growth will occur, but, how much faster than average will the economy grow?

The rapid increase in private savings acts as a constraint on growth, but the rapid ascent of the emerging market consumer accelerates the recovery. It's difficult to know exactly how to weigh each of these factors. But it seems that the emerging market consumer is the story of the next decade, while the frugal U.S. consumer is a factor for only the next year or two. If this is correct, we should see a slower but more sustainable period of economic growth.

Worst Case Outlook

The S&P 500 closed at 1,146 today. This is up from the 2009 low in the 660s—an increase of more than 70%. The S&P 500 needs to appreciate 36% just to get back to the old high from October, 2007. A limited recovery of this size is a very conservative projection relative to historic recoveries. I consider this the worst case scenario.

Baseline Forecast

Historically, the average bull market lasts sixty-eight months and appreciates 176%. If the current bull market is perfectly average, it would peak with the S&P 500 in the low 1,800s, almost 60% higher than the current level. The peak would occur sometime in 2013. This is a reasonable baseline forecast.

Best Historic Comparison

The critical assumption is that decreasing unemployment will lead to above-average economic growth. The only other modern recession that experienced similar unemployment ended in 1982. Perhaps it's not coincidental that 1982 through 1987 experienced an above average bull market.

Some argue that the bull market of the 1980s primarily resulted from tax cuts and disinflation. No doubt these factors enhanced market returns, but I'm not convinced they were the primary drivers of the exceptional bull run in the '80s. More likely, it was the severity of the preceding recession that led to the outsized recovery.

If we are beginning a bull market similar to 1982 through 1987, the S&P 500 will crest in excess of 2,200 sometime in 2014, which is 230 percent higher than the low of March, 2009. This is the best case scenario forecast.

Market Strategy

Many asset prices don't reflect an optimistic economic outlook. Large, high-quality growth stocks are for sale at the biggest discount to lower quality stocks in twenty years. The survival of companies like Gannett and Terex depended on an economic recovery. Now that we're getting the recovery, they are rallying much more than quality companies like McDonalds. 2010 could be the year that the performance of quality blue chip growth stocks catches up with the more speculative companies. We have stocked the portfolio with more high quality growth stocks. Recent purchases like Coach, Coca-Cola Enterprises and Varian show better than average growth prospects. The attractive valuations of these companies should help them outperform a strong market.

Performance

For the three months ending December 31st, the growth accounts under the management of Barden Capital performed slightly better than the S&P 500, which was up more than 5 percent. For 2009, the growth accounts are up approximately 30 percent, compared to the S&P 500's return of 26 percent. Since Barden Capital's inception in November, 2006, growth accounts have outperformed the S&P 500 by 3% a year on average with lower volatility.

What you don't often hear on the news is that for the stock market, 2009 turned out to be the second best year of the decade. The continuing strength of profits and extraordinarily low interest rates suggest continued strength for stocks, with the rest of the economy sure to follow. 1,300 seems to be a reasonable year-end target for the S&P 500. While not as strong as 2009, that still allows for a better than average year in 2010.



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.