

December 17, 2009

## Small Business is Paralyzed

*Small business owners will start hiring when they understand the rules of the game*

Only profitable businesses hire people. And the smaller the business the more ironclad this rule becomes.

Even businesses *with* a solid bottom line will be reluctant to hire if the profits they enjoy today could be impaired in the future. The typical small businessman today faces a very uncertain future, but a weak economy is only part of the problem.

Here's a list of proposals currently under discussion in Washington:

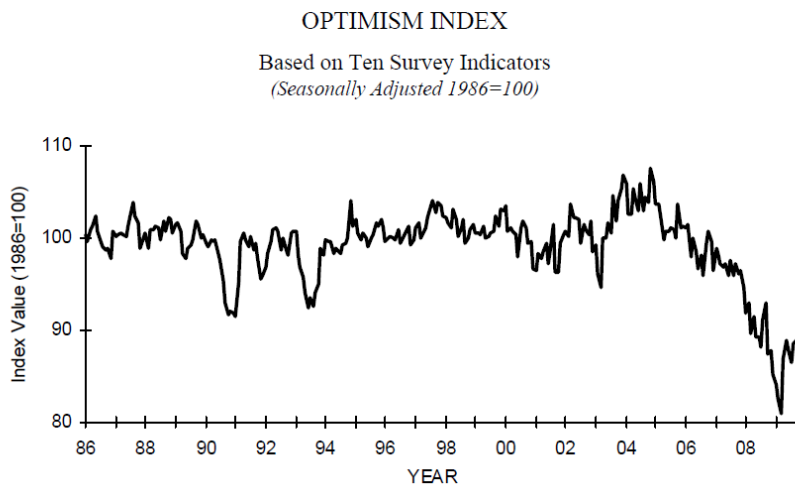
- A tax on energy consumption, known as Cap & Trade.
- A 5% surtax on high incomes to fund the War in Afghanistan.
- An increase in the top income tax to at least 39% and perhaps 45%.
- A major change in the healthcare system, which will cost small businesses something---no one really knows what.

Whether we think some of these policies are good ones or not is beside the point. Small business owners find themselves playing a game in which the referees are changing the rules as play continues. Their reaction is rational---wait until the rules have been decided before making any big decisions.

The following chart shows the dismal state of the small business outlook and why hiring won't be strong any time soon:

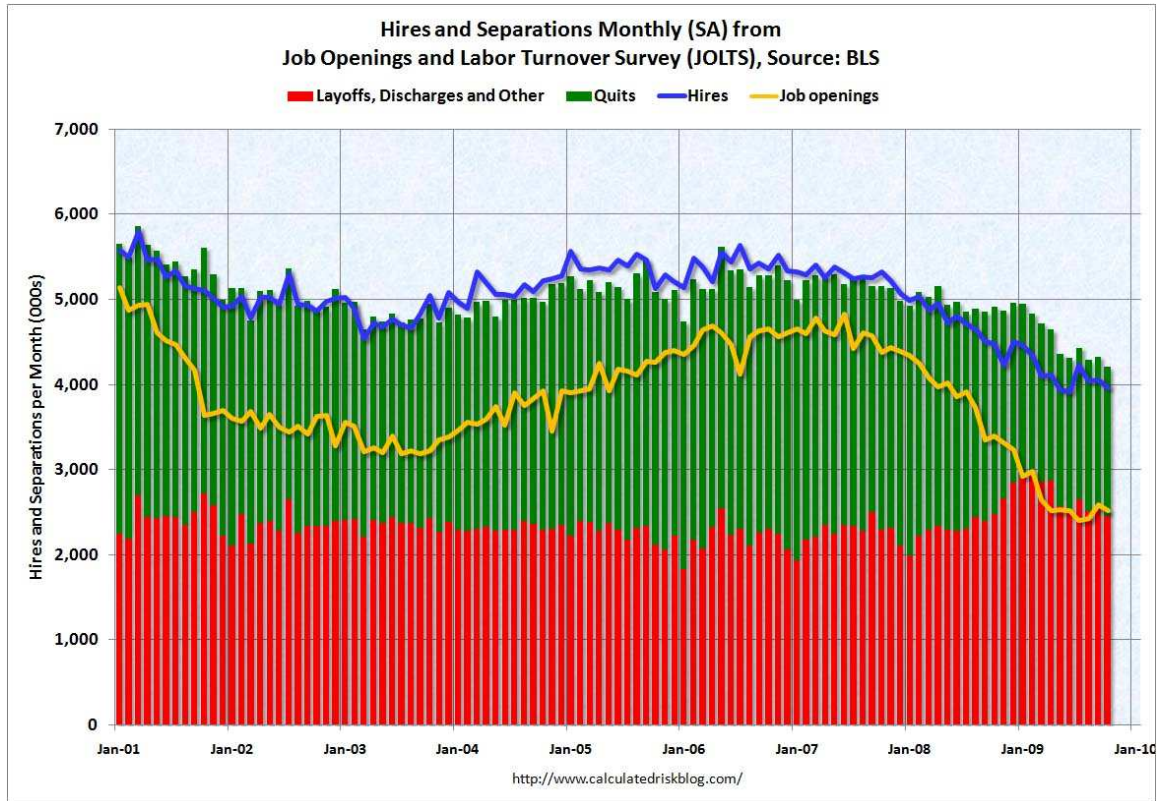
### OVERVIEW - SMALL BUSINESS OPTIMISM

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How can the nearly 7 million small businesses know what their profits will be in 2010 and beyond with all this (and more) on the table? When we recall that small business accounts for the vast majority of jobs in the US, is it any wonder that jobs are hard to come by?

Still, it may surprise some that nearly 4 million people found a job last month. And even more surprising that almost 2 million people quit a job last month. Of course well over 2 million were let go and that's how we arrive at the loss of 11,000 jobs in November. The following chart illustrates the math:



When the blue line is above the green bars, we are adding jobs---unlike now.

The good news in all this is that the uncertainty in Washington is likely to subside in 2010. Election years have a way of killing some ideas and pushing others over the line. Either way businesses should have a better idea of their costs in the new year than they have had during 2009.

We believe that 2010 could be another good year in the stock market and the trigger could be the same as small business hiring plans: Washington makes up its mind.

However, the risks remain high. Greece, Dubai, and other flash points remind us that the world remains a mess in many ways and we need to keep our guard up.

Appreciating the risks in our portfolios will result in some changes over the course of the next few weeks. We will not be standing pat.

Best regards,

Daniel A. Ogden