Buena Vista Investment Management, LLC

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A LOSS OF CONFIDENCE IN THE US ECONOMY

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A tumultuous third quarter has finally come to an end! Financial markets around the globe took a serious beating in the third quarter as investors focused on soaring government debt, Greece, the potential collapse of the European Union, ineffective leadership and partisan politics. Even the highflying commodities, gold and silver, were not immune to the carnage as they both ended the quarter in free-fall.

It is at times like this that we, as investors, need to take a deep breath and a step back to look at the total picture objectively. First, as it relates to the economic situation in this country; it is likely that we will have slow economic growth for the foreseeable future, as this country deals with our federal deficit and the ongoing restructuring of the housing industry. There is no question that the after effects from the 2008 financial crisis will be with us for some time. Even though we have recapitalized our banking system it will take years to work through all the problems associated with the housing and mortgage markets. There are no quick fixes! <u>But it is important to remember that slow economic growth does not necessarily mean no economic growth</u>!

<u>Additionally, the US economy may be more resilient than people think.</u> According to the Bureau of Economic Analysis (BEA), the United States has fully recovered all the GDP that was lost in 2008's "Great Recession", with 2010 GDP toping $14.5 trillion. Additionally, we have now had seven straight quarters of economic growth in this country. In September, the US Leading Economic Index released by The Conference Board reached an all-time high. So while the housing and banking industries have suffered, there have been other components of our economy that are doing just fine. Corporate America is extremely healthy, with profits for the S&P 500 expected to reach all-time highs in 2011. Corporate balance sheets are in excellent shape and companies are competing and winning in the global marketplace. Exports for the United States hit an all-time high of $500 billion in 2010 and 2011 is on pace to be another record year, according to the Federal Reserve's Economic Data website.

<u>So why then are the markets behaving so badly? In our opinion this is more of a crisis of confidence than of impending economic doom</u>. In this country, the trifecta of unemployment, federal debt and declining home prices are numbers that are currently drowning out any good economic or corporate statistics, and that might not change for a while. Internationally we continue to be held hostage by the Greek situation. This could mean that the US equity markets could be stuck in a trading range for the next year or until the election in 2012.

<u>Some things that might get the market moving to the upside would be a resolution to the Greek situation or the passage of three long stalled free-trade agreements with South Korea, Colombia and Panama</u>. It is estimated that the signing of these deals will boost US exports by $13 billion annually.

Corporate profits should prove to be more resilient than the markets presently estimate. Bloomberg indicates that the consensus S&P 500 operating earnings estimate for 2012 is now at approximately $110. This means that if the S&P 500 stock index was at 1300, 18% above current levels, the market would still trade at only 12 times earnings. This is below the long-term average of a 16 P/E multiple for the index.

The issues facing this country are solvable and our current crisis of confidence will end. When the markets begin to move to the upside you want to be positioned to fully take advantage of a rising market. So while we remain cautious in the short term, we remain optimistic about the long term.

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