



Views From The Heartland

Investment Perspective of Buena Vista Investment Management

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AN “AGING” BULL MARKET

US Stock Markets Provide Lackluster Returns In 2005 ... What Now?

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2005 turned out to be a boring year for stock investors as the market major averages remained in a tight trading range for most of the year. The S&P 500 stock index began the year at 1211 and then traded for most of the year within 2% of its starting point. Not a very exciting year, but it was the third consecutive year of positive returns and a profitable year should always be considered a good year.

The reason for paltry returns on stocks in 2005 can be described in a half full/half empty scenario. If you want to look at the 2005 glass as half full, then consider that the US equity market held its own in spite of



higher interest rates and skyrocketing heating oil and gasoline prices. If you want to look at things through a half empty glass, then you have to ask yourself why the stock market didn't move higher when the US economy was rock solid, the housing industry was booming and corporate America posted another year of double-digit earnings increases?

Now the question for investors is whether or not this bull market can generate its fourth consecutive year of positive returns in 2006.

As the chart indicates, this bull market began in October 2002 making it 38 months old. Since World War II, the median bull market duration is 38 months, so by historic standards this makes our current “bull” a bit on the elderly side. From a return standpoint, this “bull” has lacked the punch of its predecessors, as it has only generated a total return of approximately 60%, as compared to the median return of 80% for post WWII bull markets. It is our position that this current “bull” could generate returns equal to the median return, as we could get a boost from the end of Fed rate increases and from lower oil and gas prices in 2006.

So where do we go in 2006. As Steve Leuthold of the Leuthold group likes to point out: *Predictions are for show while actual performance is for dough!* So with that said... here is our view on 2006; we believe that a healthy market correction is on the horizon, sometime in the next 15 months. Prior to that, we think we will see the US equity market move higher, with our target for the S&P 500 stock index in the range of 1350 to 1400. This would equate to a 10% to 12% increase in prices prior to any downturn.

With the potential for a stock market correction on the horizon we want to leave our clients and readers with a few final thoughts as we enter 2006. First, a stock market correction is not a bad thing. Market corrections can offer great investment opportunity for those that follow their disciplines. Using our own Conservative Buy/Sell Discipline and the Leuthold Major Trend Index we are prepared for a correction and we intend to use this to our advantage. Second, diversifying globally and across market capitalizations helped us to outperform the S&P 500 index in 2005 and we intend to maintain this high level of diversification in 2006. This too will help us protect principal. Finally, our investment disciplines allow us to feel confident that we can add significant value to portfolios even in difficult market environments.

BUENA VISTA INVESTMENT MANAGEMENT LLC

LONG-TERM MARKET INDICATORS

Buena Vista Conservative Buy/Sell Discipline:	Buy
Leuthold Major Trend Index:	Negative
Coppock Guide:	Buy (a good buy signal but less reliable on the sell side)
S&P 500 Stock Index:	1248 (+3.0% thru 12-13-05)
Wilshire 5000:	12,517 (+4.5% thru 12-31-05)

Buena Vista Current Investment Strategy – As noted above, the Leuthold Major Trend Index has issued a “sell” signal, while our own proprietary indicator almost issued a sell signal twice in 2005, but for now it is solidly bullish. Our discipline requires us to raise a substantial amount of cash if both indicators turn negative. Until that time we remain fully invested. As indicated in this newsletter, we do think we could get a move up to 1350 - 1400 on the S&P 500. If we were to move to those levels on the S&P index we would proactively increase the cash component of the portfolios to protect three years worth of investment gains.

DIVERSIFIED MUTUAL FUND PROGRAM

Income and Growth Strategy – As we begin 2006 we are making one change to the Income & Growth investment strategy. Based on the fact that we have a flat yield curve, as of this newsletter, we are selling our holdings in Neuberger Berman High Income fund (NBHIX). We will reinvest the proceeds into Schwab Yield Plus fund (SWYSX). This change will allow us to shorten the portfolio’s fixed income duration.

Performance for the Income & Growth strategy in 2005 was 5.03%.

Total Return Strategy – The strategy remains 100% invested in equity mutual funds. As we begin 2006, there are no major changes being made to the investments in this strategy. An increase in the portfolio’s large capitalization exposure is being considered, as this area has underperformed mid and small capitalization investments for approximately the last 5 years.

Performance for the Total Return strategy in 2005 was 7.86%.

Conservative Equity Strategy – As we begin 2006 we are removing the Merger fund from the portfolio and are replacing it with Permanent Portfolio fund (PRPFX). The fund is very unique in its investment approach, as it invests a fixed percentage of fund assets into gold, silver, Swiss francs, US and foreign real estate and natural resource companies, US growth stocks and US Treasury notes and bonds. This low volatility fund also has a very low correlation to the overall stock market and this makes it a perfect fit for Conservative Equity strategy.

Performance for the Conservative Equity strategy in 2005 was 7.49%.

Hedged Strategy – The hedged investment strategy has met its short-term portfolio objective for the third year in a row, as it generated a positive return in 2005. As we begin a new calendar year, the strategy has only 70% invested in long equities and the balance in fixed income and money market funds.

2004 Performance for the Hedged strategy was 1.22%

Important Disclosure – The performance numbers contained on this page are provided for informational purposes only. Returns may vary depending on personal objectives and timing of invested dollars. The performance numbers contained on this page are based on investments that have been in place since 1-1-04. Contact Buena Vista Investment Management LLC for more specific information concerning performance and market data. Do not rely on this information to make investments.

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