



# Views From The Heartland

*Investment Perspective of Buena Vista Investment Management*

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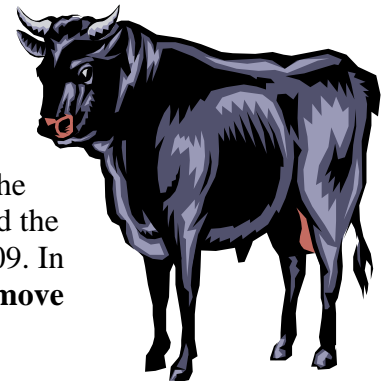
## Attractive Valuations, High Dividend Yields, Low Interest Rates and a Big Stimulus Package Create a Bullish Environment

By John Moffat and Joel Sullivan, Partners

We begin 2009 with a feeling of optimism about the future. Any reader of this publication is all too familiar with global equity market declines in 2008, so rather than discussing the events of 2008 as we would normally do in this issue, we would like to take this opportunity to share with you the reasons why **we are now “patiently” bullish.**

It is our opinion that the stock market low occurred on November 20<sup>th</sup> (741 - S&P 500) and will mark the low point for the 2007-2008 bear market. We are also of the opinion that the next major move for the equity markets will be upward, with a target for the S&P 500 stock index of 1100. This would equate to a **20% upside move from current levels.** So what causes us to be bullish at this time?

**First,** all the media **comparisons to the Great Depression are just plain silly.** Yes, the economy has slowed and yes we have issues to work through, but our current economic situation is nowhere near that of the 30s. Most importantly, the coordinated response by governments around the world is dramatically different than the response in the 30s and should get the global economy back on its feet. China has announced a \$500B package and the US and other G20 nations are also readying large stimulus packages for 2009. In the **short-term, economic news will continue to be unsettling but as we move through 2009 economic data will begin to improve.**



**Second,** we are in a “near zero” interest rate environment. Today, a no risk money market fund provides a yield of 1% or less; 2 year CDs are at 2%. Now compare that to the current dividend yield of 7% on GE, 3% on Caterpillar, 5% on AT&T and 7% on Pfizer. Today, **investors are being paid a premium to take on the risk of our equity markets.** Also, mortgage rates near 5% will help foster a recovery in the battered housing market and benefit consumers.

**Third,** using all kinds of historical comparisons, global financial markets exhibited extreme volatility in the second half of 2008 and extremes don't last forever. We witnessed gut wrenching volatility in the equity market with stock prices swinging 3-5% on a daily basis. Commodity markets soared and then plunged. In the bond markets, corporate spreads widened to near record levels and municipal bond yields soared, providing higher cash yields than treasuries. We even saw a negative yield on treasury bills. It has been our experience that for those willing to look beyond today's news, **extreme market environments usually provide extreme investment opportunities** for those with patience.

Lower interest rates, coupled with dramatically lower oil prices and massive governmental stimulus should provide the foundation for a better 2009. Therefore, **we begin the New Year with a fully invested position and a belief that both the US and global economy will improve in 2009.**

# BUENA VISTA INVESTMENT MANAGEMENT LLC

## LONG-TERM MARKET INDICATORS

Buena Vista Conservative Buy/Sell Discipline:	Negative (Substantial upside move in S&P 500 needed for "buy")
Leuthold Major Trend Index:	Positive (moved to positive in September 2008)
Coppock Guide:	Negative (close to issuing a long-term "buy" signal)
S&P 500 Stock Index:	903.25 (-38.49% thru 12-31-08)
Wilshire 5000:	9087.17 (-38.68% thru 12-31-08)

**Buena Vista Current Investment Strategy** – We enter the New Year with a bullish viewpoint, having substantially reduced our allocation to no risk money market investments in the fourth quarter. Our current allocation to money markets funds is between 3% and 16 %. This is the closest we have been to our normal allocation in the last two years. We also added the leveraged Rydex 2X S&P 500 fund, to some of the strategies. While we expect volatility to continue and there may very well be some downdrafts in 2009, we are now "patiently bullish" for all the reasons explained on page one of this newsletter.

## DIVERSIFIED MUTUAL FUND PROGRAM

**Total Return Strategy** – The Total Return Strategy is now fully invested. In December we reduced the allocation to no risk money market funds down to 5%. We also implemented an overweight position (15%) in the Rydex 2X S&P 500 fund, a leveraged fund. This means the strategy has equity exposure of approximately 110%.

**2008 Performance Total Return Strategy was -30.67%.** (Benchmark S&P 500 Index -38.49%)

**Conservative Equity Strategy** – Our Conservative Equity strategy significantly outperformed its benchmark in 2008, with a return 14% better than its benchmark. For 2009 the biggest changes to the portfolio are an 18% allocation to the Rydex 2X S&P 500 fund and 16% allocation to money market. This means that the strategy is now fully invested. Our interim strategy is to maintain our Rydex position until the S&P 500 reaches 1100. At that time we may move toward a more conservative allocation.

**2008 Performance Conservative Equity Strategy was -24.54%.** (Benchmark Wilshire 5000 Index -38.68%)

**Income and Growth Strategy** – In an income and growth investment strategy, the income component of the strategy is supposed to provide stability during turbulent times in the equity markets. In 2008 our allocation to short-term fixed income investments contributed to strategy's negative performance. In response, we have replaced one of the bond funds with American Century Diversified Bond fund. This fund ranks in the top 10% of its category and has a very consistent track record.

**2008 performance Income & Growth Strategy was -24.38%.** (Benchmark Vanguard Balanced Index -24.63%)

**Absolute Return Strategy** – The strategy had its first losing year since inception due to its investment in fixed income securities issued by the automakers. Given the extreme volatility we saw for these investments in 2008 and the recent access to TARP funds for the automakers, we anticipate a healthy rebound in pricing on these investments in 2009.

**2007 Performance Absolute Return Strategy was -28.38%.**

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 net of Buena Vista management fees and are based on investments that were in place on 1-1-08. Contact Buena Vista Investment Management LLC for more specific information concerning performance and market data. Do not rely on this information to make investments.

**BUENA VISTA INVESTMENT MANAGEMENT LLC**  
**320 WEST GRAND AVENUE WISCONSIN RAPIDS, WI 54495**  
**715-422-0700 buenavista@buenavistainv.com**