



Views From The Heartland

Investment Perspective of Buena Vista Investment Management

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STOCK MARKET ENDS 2010 ON A HIGH NOTE

Bull Market Is Now Two Years Old.... What's In Store for 2011?

We concluded our December 2009 newsletter as follows:

.... ..So as we begin a new decade.... we have low interest rates, reasonable inflation expectations, an improving housing market, \$500 billion of government stimulus and improving retail and manufacturing sectors. In addition, Corporate America is healthy, with most balance sheets being strong and flush with cash. All this should lead to an improved economic environment in 2010.



2010 played out as we anticipated; the US economy rebounded nicely from its near death experience in 2008 and with it, the US equity market also continued its recovery. The equity markets were very volatile in 2010, as we experienced two big corrections and then went on to finish December at the highs for the year.

Even with all of the volatility in 2010, the stock market looks healthy. Corrective action like we saw in 2010 is necessary and healthy for "bull" markets. We have now seen 5 corrections greater than 5% since the start of this "bull" move in 2009. Without getting too technical, the market's internals also look good and all three of our market indicators remain "bullish". (See back page).

So as we enter 2011 we are maintaining our "cautiously bullish" outlook for the US equity markets. As we sit around the conference room table at our weekly investment committee meetings the consensus number for the S&P 500 has emerged at 1350 or an 8% gain in 2011. But as fundamental investors focusing on earnings, the estimated 2011 earnings numbers for the S&P 500 stock index tell us that 1450 is achievable. This would mean a solid gain for 2011 somewhere in the range of 7% to 15%. But to get to the top of the range, we are going to need some good fortune.

What could derail our bullish outlook for stocks? Our concerns for 2011 revolve around the price of commodities and the direction of interest rates. Important commodities, especially oil, are currently moving higher due to increased global demand. Eventually, rising commodities prices could very well cause a slowdown in economic activity as we move through this year and into 2012.

On the interest rate front, the Federal Reserve Bank has stated that it wants to keep interest rates low. But the markets aren't having any of it. After the QE2 announcement, bond traders pushed long rates up, with the 10 year Treasury note moving from 2.4% up to 3.5% in the fourth quarter of 2010. We are also concerned that rising rates could in turn cause a mass exodus from bond funds, which could then push rates up even higher.

So we begin the New Year, bullish on stocks and bearish on bonds, especially bond funds. But the potential for rising interest rates and rising commodity prices could derail our bullish thesis. As we move into the third year of this bull market we are closely monitoring our three market indicators, and will adjust strategy as needed, when and if the indicators turn bearish.

OVER

BUENA VISTA INVESTMENT MANAGEMENT LLC

LONG-TERM MARKET INDICATORS

Buena Vista Conservative Buy/Sell Discipline:	Buy (issued a "buy" signal in 9-2010)
Leuthold Major Trend Index	Positive (turned positive in 9-2010)
InvesTech Negative Leadership Composite:	Buy (remains a "buy" signal since May 2009)
S&P 500 Stock Index:	1,257.64 (12.78% thru 12-31-10)
Wilshire 5000:	13,290.03 (15.59% thru 12-31-10)

Buena Vista Current Investment Strategy – As we enter 2011 we are maintaining our fully invested position in the Diversified Mutual Fund Program. Our allocation to no risk money market investments remains at the low end of our normal range, with allocations currently between 3% and 5% for portfolio strategies. While we acknowledge that we are entering the third year of this bull move and are concerned about the steady climb in oil and commodity prices, we remain "cautiously bullish". Given the fact that this "bull" is getting a bit long in the tooth, we believe flexibility may be the key to solid returns in 2011.

DIVERSIFIED MUTUAL FUND PROGRAM

Total Return Strategy – 2010 was a solid year for the Total Return Strategy. The strategy is currently fully invested and has over 30% of portfolio investments positioned in international investments. During the 4th quarter of 2010 we added two new funds; Parnassus Small Cap fund and the BlackRock Latin America fund. The addition of investments specific to Latin America was based on the fact that Latin America is a commodity exporting region and we believe commodity prices will continue to rise.

2010 Performance Total Return Strategy was 14.72%. (Benchmark S&P 500 Index 12.78%)

Conservative Equity Strategy – In the 4th quarter of 2010 the strategy reduced its cash position by adding the American Century Heritage fund. This fund has been added to the portfolio to increase its exposure to mid capitalization companies, an area we believe will generate above average performance as the US economy continues to improve. The biggest contributor to strategy returns in 2010 was the Gabelli Small Cap, which posted a gain of over 20%.

2010 Performance Conservative Equity Strategy was 12.18%. (Benchmark Wilshire 5000 Index 15.59%)

Income and Growth Strategy – In the 4th quarter of 2010 we increased the allocation to international stocks by adding to the Mathews Asian Growth and Income position. The strategy's small and mid cap exposure generated returns of close to 20% and the Loomis Sayles Bond fund provided an equity like return of almost 13%. This strategy is now fully invested, and we are monitoring the strategy's fixed income exposure as we anticipate a rising rate environment in 2011.

2010 performance Income & Growth Strategy was 10.13%. (Benchmark Vanguard Balanced Index 10.49%)

Absolute Return Strategy – 2010 was a roller coaster ride for this strategy. The portfolio started the year with a fully invested position and by mid year had moved to a 120% investment position. The leveraged approach allowed the strategy to post its second best year since inception. As we enter 2011 the strategy has taken off all leveraged positions and added a concentrated position in Isis Pharmaceuticals.

2010 Performance Absolute Return Strategy was 15.84%.

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 held in a composite of accounts with like investment strategy. Contact Buena Vista Investment Management LLC for more specific information concerning performance and market data. Do not rely on this information to make investments.