Views From The Heartland
Investment Perspective of Buena Vista Investment Management

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Economic Data Is Improving

Can the US Markets Rebound In 2012 Despite Problems in Euroland?

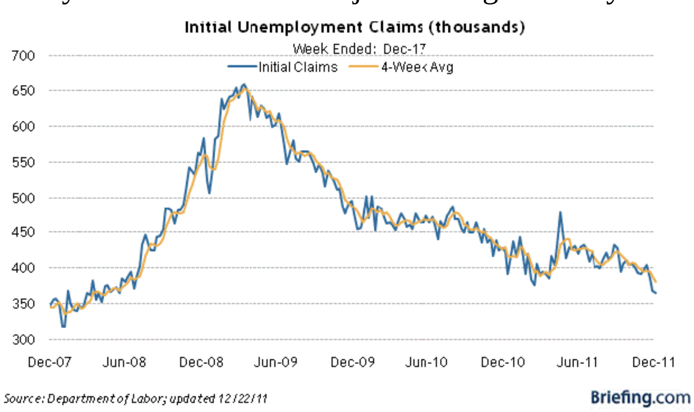
Political discourse and years of governmental fiscal mismanagement rocked the world's equity markets during the second half of 2011 and wiped out all of the gains posted in the first half of the year. Unfortunately, the budget deficits in the US and Europe overshadowed positive economic news and created too much uncertainty for investors and traders.

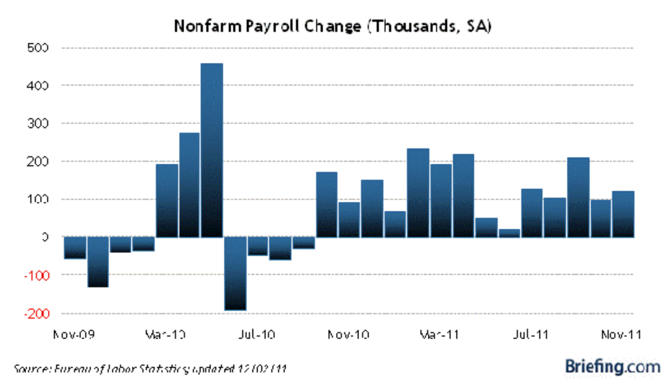
In our December, 2010 newsletter we laid out a case for the S&P 500 getting to 1350 and possibly higher. The S&P did close at 1363 on April 29th before steadily moving lower to finish the year at 1257. So as we put 2011 in our rear view mirror and look forward to the New Year, we would like to provide you with some of our thoughts about your investments in 2012.

A good place to start our discussion about 2012 is with Europe. It must be noted that Europe is beginning to implement policies that should improve the financial environment on the other side of the "pond". Fiscally conservative governments have been elected in Spain and Italy and a healthy discussion on solving Europe's fiscal dilemma is occurring. Change may not be occurring as fast as many in the markets would like, but as we move through the first half of 2012, we expect the bond markets to force European leaders to make the necessary tough decisons.

If we looked at fundamentals alone, the U.S. equity markets would likely be higher than current levels, but the fear of a European collapse and its potential impact on US banks has investors fearing the worst. In our opinion, if that fear is removed, or even significantly reduced, then that should pave the way for a nice rally in US stocks.

As Europe improves, investors are likely to bring their focus back to economic fundamentals in the US and in Asia. And if you examine where our economy is heading, there are a number of positive trends developing. First, the stage has been set for unemployment to come down in 2012, as unemployment claims have dropped to a 3 ½ year low. The nation added 100,000 or more new jobs every month since July and over 1.4 million jobs during the last year.





Can the US Markets Rebound In 2012 Despite Problems in Euroland? (continued)

Additionally, there is a positive trend in the housing industry with housing starts are at their highest level since April 2010. Consumer confidence numbers from the Conference Board jumped 15.1 points in November to 56 and continued to improve in December, moving up to a reading of 64. Retail sales are expected to be up over 8% compared to 2010 and we have the US Leading Economic Index moving to a new highs in November and then again in December. Finally, US corporations in the S&P 500 are on pace to post record profits this year and their balance sheets are as strong as they have been in many years. So when we look at all of the economic data, we see some distinctly positive trends.

In addition to positive economic trends, we have a stock market that is undervalued compared to historic norms. No matter what fundamental indicators we look at, we see value. For example, the forward price to earnings (P/E) ratio based on 2012 earnings estimates for the S&P 500 is 11.4. This is below the historic average of 15.6, which suggests the S&P 500 may be 27% undervalued.

The same holds true for other fundamental indicators, such as Price to Book, Price to Cash Flow and Price to Sales; they are all pointing to an equity market selling below historic norms. But with that said, given the current level of investor pessimism….it is possible for the markets to stay undervalued in 2012.

So as we look to 2012, it is important to look past the negativity often displayed in the media and remember that emotion can be the enemy of sound investing. In these uncertain times it is important to focus on the facts and to understand the direction of the trends. The US economy, the largest and most stable in the world, is improving. The Asian and Latin American economies are growing. Europe is working to solve its problems. Our market indicators continue to trend in a positive manner and stock market valuations are very reasonable.

Under these conditions our forecast for next year is that the S&P 500 should rise to a level between 1350 and 1450. However, don't expect a smooth ride as European and other headlines can cause world markets to move up and down on a short term basis. But ultimately, fundamentals will matter and things like corporate profits and valuations should be reflected in higher stocks prices during 2012.

BUENA VISTA INVESTMENT MANAGEMENT LLC

LONG-TERM MARKET INDICATORS

Buena Vista Conservative Buy/Sell Discipline:	Negative (very close to turning positive)
Leuthold Major Trend Index	Buy (turned back positive 12-29-2011)
InvesTech Negative Leadership Composite:	Neutral (indicator is stable but has not issued a "buy"singal)
S&P 500 Stock Index:	1,257.60 (0.00% thru 12-31-11)
Wilshire 5000:	13,109.55 (-1.36% thru 12-31-11)

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