



Views From The Heartland

Investment Perspective of Buena Vista Investment Management

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ALL WE NEED ARE RULES

Markets Await Finalization of Tax Laws and Health Care Regulations

2012 proved to be a very good year in the global equity markets as major international markets posted double digit percentage returns (11% to 17%). In spite of the excellent returns posted by the equity markets in 2012, investors continued to desert stocks for the perceived safety of bonds and total return investments. The fiscal cliff, the demise of Europe, the decline of China and market volatility have created a gloom and doom environment that continues to dominate the investment media. This in turn creates a fear of the future that has caused some investors to stay away from the stock market in spite of the solid returns in 2012.

If you look beyond all the doom and gloom rhetoric, there are some very exciting things happening in the United States economy.

First, the foundation of the US economy **housing, has quietly strengthened**. Home sales in 2012 were up 11% while the inventory of houses for sale has shrunk by up to 20% in many cities. The Federal Reserve's program of purchasing both long term treasuries and mortgage securities has resulted in record low mortgage rates, spurring new demand. Bank America's US Economist Michelle Meyer is predicting that new housing starts will increase by 20% in 2013 and that home prices will increase by an average of 3% a year for the next ten years. A revival in the real estate markets will have a ripple effect that will be beneficial for appliances, furniture, carpeting and material sales. Housing typically has accounted for 5% of the US GDP; today it is at half that number. It is our position that the housing market is improving and we believe that the recovery will continue into 2013.

Second, **the automobile industry which has always been a key driver in the growth of the US economy has improved dramatically**. According to Motor Intelligence, there have been 13.1 million vehicles sold in the US through November 2012. This compares to 11.5 million vehicles sold through November 2011, a 14% year over year increase. According to the Los Angeles Times, there are currently 240 million cars on our roads, with the average age of these cars at 10.8 years. An aging fleet and improved consumer confidence should spur future demand. In addition, Hurricane Sandy had a devastating effect on the east coast and resulted in a tremendous amount of damage and destruction to existing vehicles. All of these facts lead us to believe that the automobile industry will continue to see an improvement in sales in 2013.

Finally, and most importantly, there are the **tremendous changes taking place in the energy industry**. Recent studies have projected that the United States could become a net exporter of energy by 2020. In the last six years, according to the US Energy Information Administration, energy production has climbed to almost 7 million barrels of oil per day from only 5 million. As the same time oil imports have shrunk by 20%. The new oil economics have in turn resulted in historically low natural gas prices.

Some of the very important ramifications from the changes occurring in the energy industry are decreasing trade deficits, easing inflation and creating a competitive manufacturing sector. In 2012 there were a number of major announcements relating to the construction of new chemical plants on the east coast and refineries in the south, which according to the Wall Street Journal are a direct result of falling natural gas prices. (OVER)

ALL WE NEED ARE RULES (continued)

Markets Await Finalization of Tax Laws and Health Care Regulations

Without question, **the transformation of the energy industry is one of the most underappreciated changes occurring in the United States economy today.**

An easily identifiable consequence of this transformation is occurring in the transportation industry. The conversion of 18 wheel semi-tractor trailers to natural gas is a trend that is actually in process. According to T Boone Pickens, approximately one third of our imported oil goes into making diesel fuel for the tractor trailer industry (Fed Ex trucks, garbage trucks, city buses and long-haul trucks for example). If those vehicles were using fuel produced here in the United States our trade deficit would dramatically decrease, good paying jobs would be created and ancillary industries would thrive. Controlling the source, the supply and the production would create huge economic benefits to our country. Most importantly the dollars spent on energy would stay right here in the United State rather than going to the Middle East, a very underappreciated benefit.

So with housing, auto and the energy industries showing dramatic improvement why is there so much gloom and doom?

The simplistic answer is that Congress has created an environment of uncertainty that has, to a degree, frozen Corporate America in place. Currently, there is so much uncertainty over tax laws and health care requirements that Corporate America now sits with over \$400 billion invested in money market funds earning 0%. No one in their right mind wants to compete in a game where they do not know the rules. Thus, it is safer for American industry to sit on the sidelines and wait for the rules to be formulated. The CEO's of major US Corporations recently went so far as to lobby Congress and the White House to find common ground and enact legislation that would create some tax certainty, rather than temporary short-term fixes.

It is our opinion and many others in the investment world that certainty relating to tax and health care laws would unleash a new wave of corporate investment and improve consumer confidence resulting in higher economic growth and reduced unemployment.

Buena Vista believes that tax laws and regulations will eventually be established. What we do not know is when Congress will agree on the course of action. The longer it takes to enact legislation, the greater the damage will be to the economy and the global markets. The longer this uncertainty continues, the greater the potential for a negative market response at the beginning of 2013. However, when rules are finally put in place, we believe that the economy will start to exhibit stronger GDP growth. The equity markets will anticipate this turn and **we believe that the S&P 500 can rise to 1550 in 2013.** Getting to those levels may however be quite a roller coaster ride, especially in the first quarter of 2013.

BUENA VISTA INVESTMENT MANAGEMENT LLC

INTERMEDIATE-TERM MARKET INDICATORS

Buena Vista Conservative Buy/Sell Discipline:	Bullish (turned positive 1-2012)
Leuthold Major Trend Index	Neutral (turned neutral 12-2012)
InvesTech Negative Leadership Composite:	Positive (turned positive 2-2012)
S&P 500 Stock Index:	1426.99 (13.47%)
Dow Jones Total Market Index:	14834.88 (113.16%)

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.

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