

December 2014

**FINANCIAL MARKET
REVIEW**

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**Why Portfolios Remain
Diversified**

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World Economy — Gross Domestic Product (GDP)

Global economic growth has nearly doubled in the last decade and increased by nearly one third since the peak just before the Great Recession.

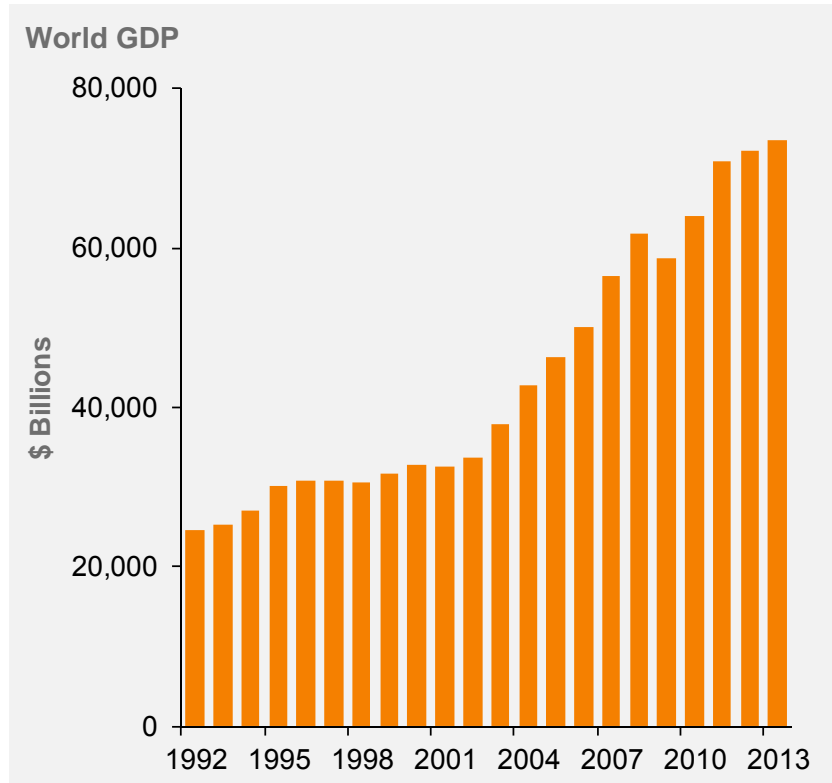


% of World GDP	2003 \$37.9 Trillion	2007 \$56.4 Trillion	2013 \$73.4 Trillion
United States	30	26	23
Emerging and Developing Economies	20	28	38

Source: International Monetary Fund (IMF) as of 2013

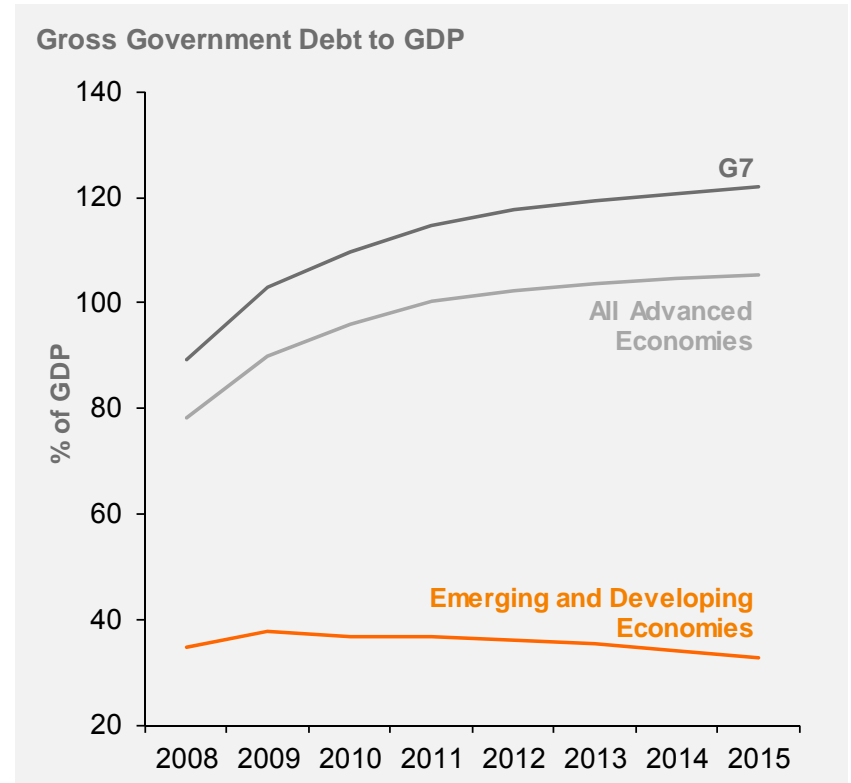
Developing Markets Drive Growth

World GDP accelerated in the last decade, supported by the largest emerging markets, which now out-produce the largest developed economies, where generally higher debt levels hinder economic growth.



Data as of 12/31/13.

Source: IMF World Economic Outlook database

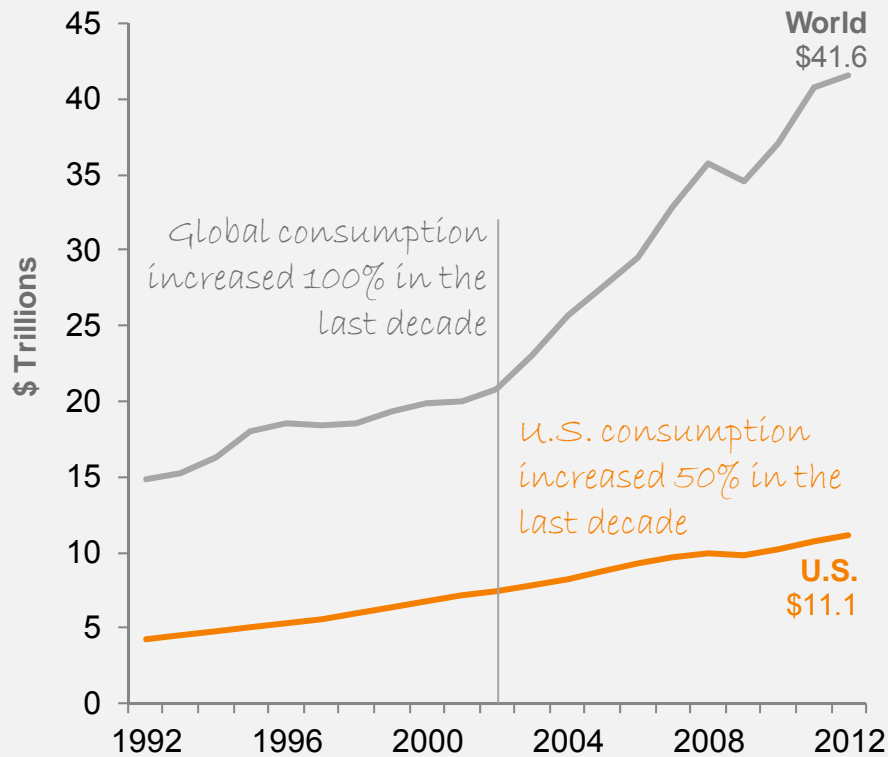


Note: The G7 countries are comprised of the U.S., U.K., France, Germany, Italy, Canada and Japan

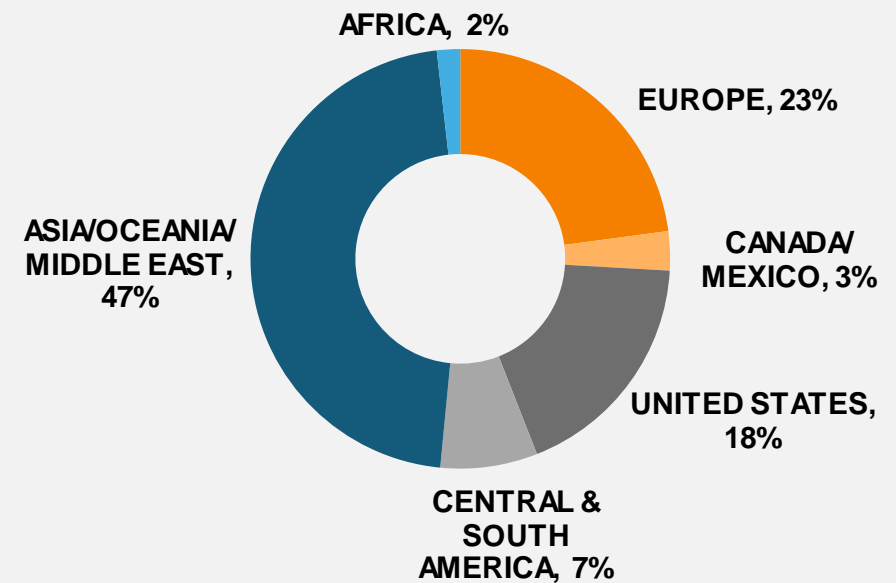
Global Consumer

Global household consumption of goods and services has increased 100% in the last decade. The consumer contribution to global expansion is prodigious. Emerging markets now account for more than 50% of auto sales.

Global and U.S. Consumption



Automobile Sales (84.7 million units 2012)



China is the number one auto market in the world and U.S. only accounts for 18% of global sales

Data as of 12/31/12.
Source: The World Bank, OICA

Global Stock Fundamentals

Emerging market equities appear to offer competitive profitability and balance sheet strength with valuations at or below those of S&P 500 and EAFE stocks.

Valuation	S&P 500	MSCI EAFE	MSCI Emerging Markets
P/E (next fiscal year estimated earnings)	16.5	14.7	11.7
Price to Book Ratio	2.6	1.6	1.4
Price to Cash Flow Ratio	11.5	8.8	7.2
Price to Sales Ratio	1.7	1.0	1.0
Profitability			
Return on Equity (ROE) %	15.7	10.7	12.2
Balance Sheet Strength			
Long-term Debt to Capital Ratio %	36.8	41.3	28.8

Note: Valuation and Profitability figures are weighted harmonic averages, a statistical technique that reduces the effects of extreme outlying data on the average. Long-term Debt to Capital figures are weighted averages.
Source: FactSet

World Market Returns by Region — USD

Emerging market equity (EME) has often been a top performer but lagged in 2011-2013. Pacific ex-Japan and the EME are again market leaders this year, while Japan and Europe-Ex-U.K. are the laggards.

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
EME 56.3%	Pac Ex-Japan 29.6%	EME 34.5%	Europe Ex-UK 36.4%	EME 39.8%	Japan -29.1%	EME 79.0%	EME 19.2%	S&P 500 2.1%	Pac Ex-Japan 21.7%	S&P 500 32.4%	Pac Ex-Japan 11.8%
Pac Ex-Japan 47.0%	EME 26.0%	Japan 25.6%	Pac Ex-Japan 33.2%	Pac Ex-Japan 31.7%	S&P 500 -37.0%	Pac Ex-Japan 73.0%	Pac Ex-Japan 17.1%	UK -2.5%	Europe Ex-UK 18.7%	Europe Ex-UK 28.7%	EME 10.9%
Europe Ex-UK 43.6%	Europe Ex-UK 22.4%	Pac Ex-Japan 14.8%	EME 32.6%	Europe Ex-UK 17.5%	Europe Ex-UK -45.0%	UK 43.4%	Japan 15.6%	Pac Ex-Japan -12.7%	S&P 500 15.0%	Japan 27.3%	S&P 500 9.9%
Japan 36.2%	UK 19.6%	Europe Ex-UK 11.3%	UK 30.7%	UK 8.4%	UK -48.3%	Europe Ex-UK 33.9%	S&P 500 15.1%	Japan -14.2%	EME 13.1%	UK 20.7%	UK 4.3%
UK 32.1%	Japan 16.0%	UK 7.4%	S&P 500 15.8%	S&P 500 5.5%	EME -47.1%	S&P 500 26.5%	UK 8.8%	Europe Ex-UK -14.5%	UK 13.0%	Pac Ex-Japan 5.6%	Europe Ex-UK 1.5%
S&P 500 28.7%	S&P 500 10.9%	S&P 500 4.9%	Japan 6.3%	Japan -4.1%	Pac Ex-Japan -50.0%	Japan 6.4%	Europe Ex-UK 2.4%	EME -18.2%	Japan 2.9%	EME -2.3%	Japan -0.8%

Note: All data are based on equity indexes for each regional or country index and are total returns including dividends for each calendar year or partial year.
Source: MSCI, Standard & Poor's, FactSet

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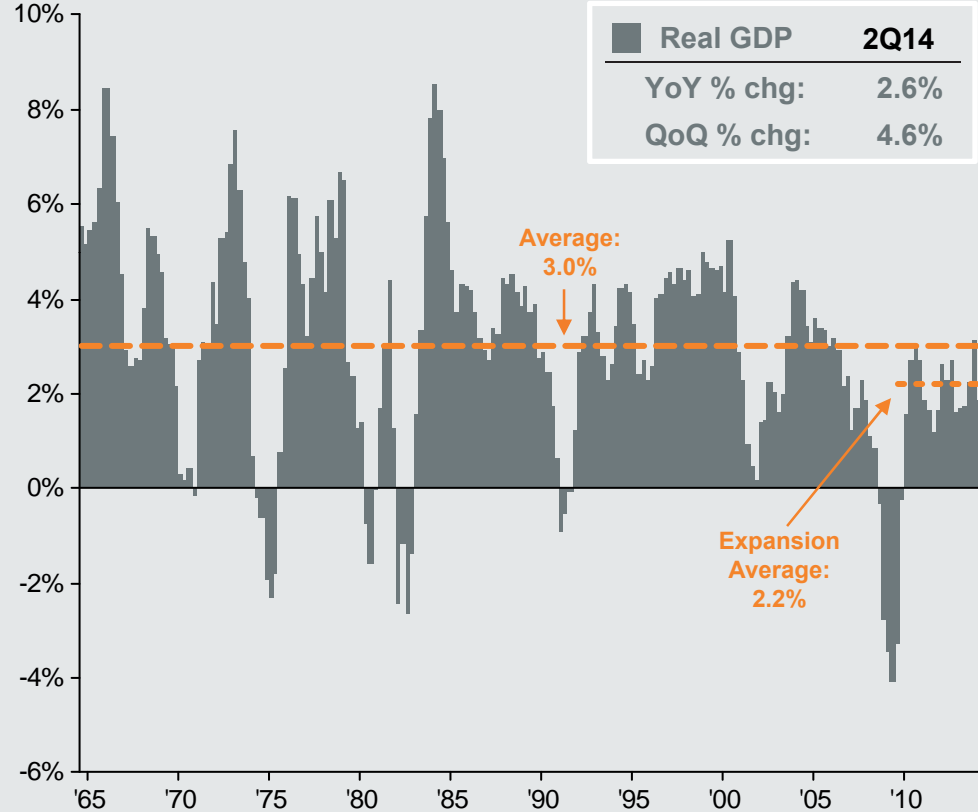
**Two Important Economic
Trends**

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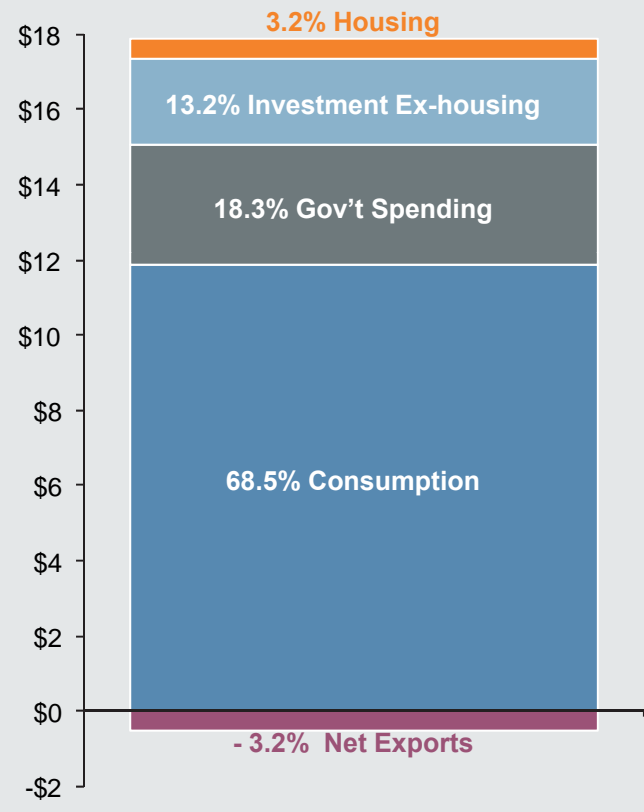
Real GDP

Year-over-year % chg



Components of GDP

2Q14 nominal GDP, trillions USD

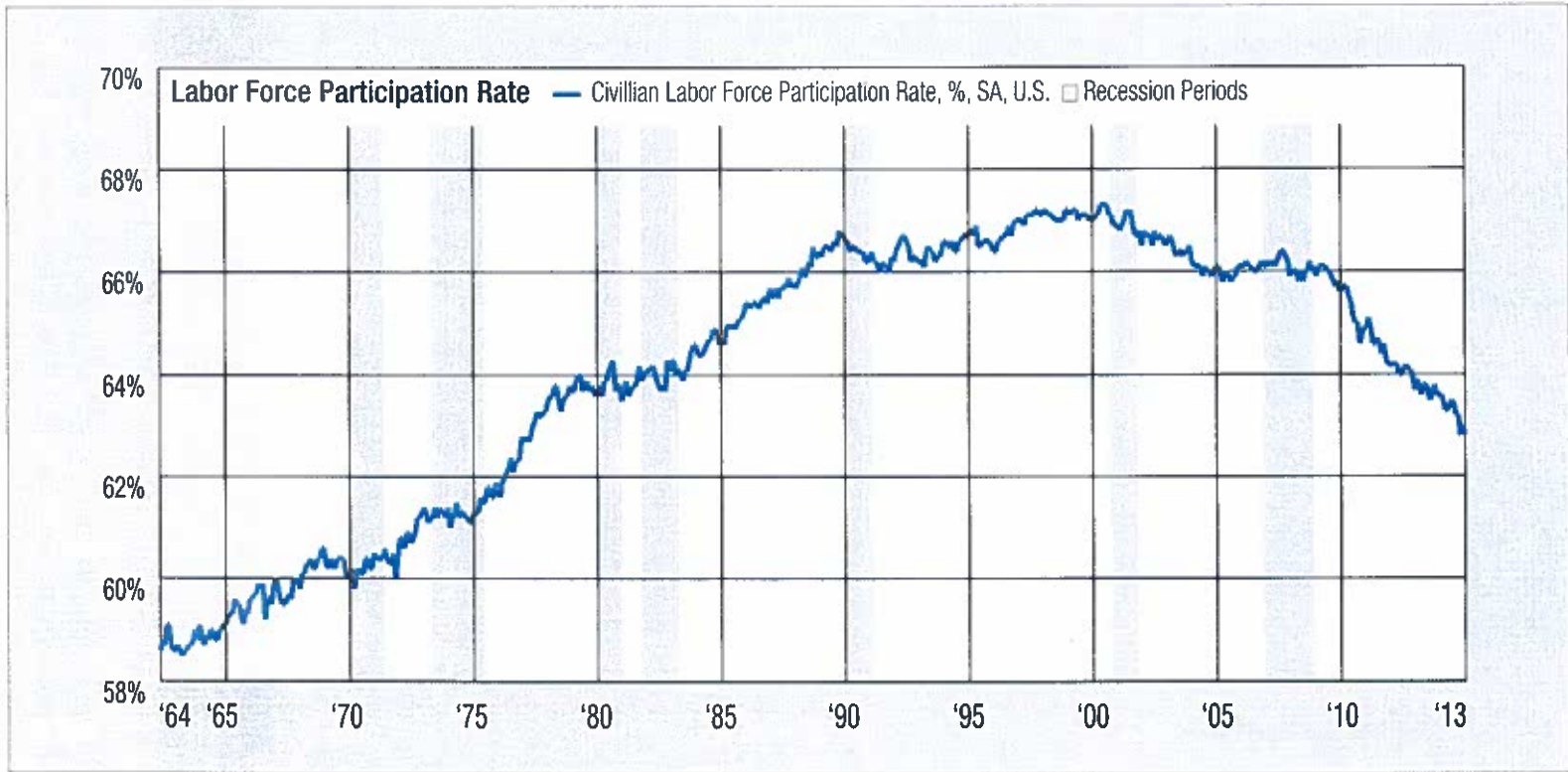


Source: BEA, FactSet, J.P. Morgan Asset Management.

Values may not sum to 100% due to rounding. Quarter over quarter percent changes are at an annualized rate. Average represents the annualized growth rate for the full period. Expansion average refers to the period starting in the second quarter of 2009.

Guide to the Markets – U.S.

Data are as of 9/30/14.



■ The Labor Force Participation Rate, the ratio of the labor force divided by the total population, has declined to 62.8% since its peak in 2000 at 67%, reflecting a greater number of discouraged workers, retirees, and students. The decline in the unemployment rate may be augmented by this decline in the labor supply. Discouraged workers are individuals who are 16 years and older and are able to work, but for some reason, are discouraged and stopped looking for work.

■ Emergency federal unemployment benefits in place since the financial crisis in 2008 will be cut-off for 1.3 million jobless Americans as a result of the budget deal passed by Congress in December. Unless Congress renews these benefits, the labor participation rate, already at a 37-year low, may sink further, and consumer spending may drop. Some proponents argue cutting-off these emergency unemployment benefits may motivate the long-term unemployed to find a job.

SOURCE: FactSet, Dept of Labor

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US Equity Market Valuation

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Stock Valuation Measures: S&P 500 Index

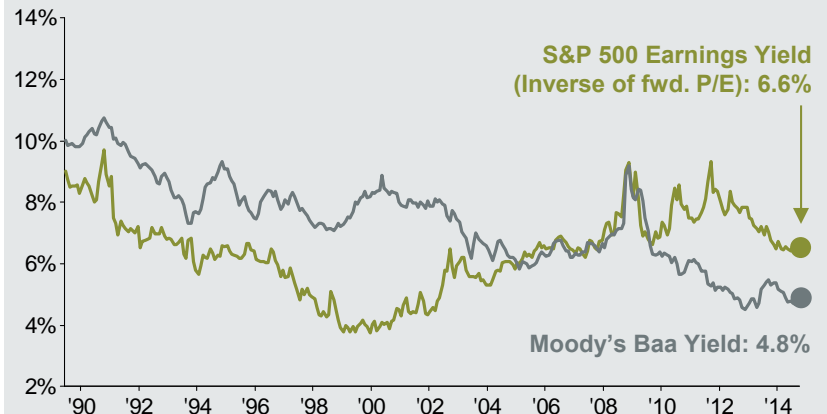
U.S. Equity: Valuation Measures

U.S. Equity: Valuation Measures			Historical Averages			
Valuation Measure	Description	Latest	1-year ago	5-year avg.	10-year avg.	25-year avg.*
P/E	Price to Earnings	15.2x	14.2x	13.4x	13.8x	15.6x
CAPE	Shiller's P/E	26.3	25.0	22.1	22.9	25.2
Div. Yield	Dividend Yield	1.9%	2.0%	2.0%	2.0%	2.1%
REY	Real Earnings Yield	3.8%	3.7%	4.2%	3.2%	2.2%
P/B	Price to Book	2.8	2.6	2.3	2.4	2.9
P/CF	Price to Cash Flow	10.8	10.6	9.2	9.7	11.3
EY Spread	EY Minus Baa Yield	1.8%	1.5%	2.1%	1.2%	-0.7%

S&P 500 Index: Forward P/E Ratio



S&P 500 Earnings Yield vs. Baa Bond Yield



Source: Standard & Poor's, FactSet, Robert Shiller Data, FRB, J.P. Morgan Asset Management. Price to Earnings is price divided by consensus analyst estimates of earnings per share for the next 12 months. Shiller's P/E uses trailing 10-years of inflation adjusted earnings as reported by companies. Dividend Yield is calculated as the trailing 12-month average dividend divided by price. Price/Earnings to Growth Ratio is calculated as NTM P/E divided by NTM earnings growth. Price to Book Ratio is the price divided by book value per share. Price to Cash Flow is price divided by NTM cash flow. EY Minus Baa Yield is the forward earnings yield (consensus analyst estimates of EPS over the next 12 months divided by price) minus the Moody's Baa seasoned corporate bond yield. *P/CF is a 20-year avg. due to cash flow data availability.



ON TOP OF THE MARKET—2Q 2014

S&P 500 VALUATION

as of June 30, 2014

— Forward Price-to-Earnings Ratio (left axis)

— Price Index (right axis)

□ Recession Periods

○ S&P 500 Price Index and Forward Price-to-Earnings Ratio Level Peaks for March 24, 2000 and October 9, 2007

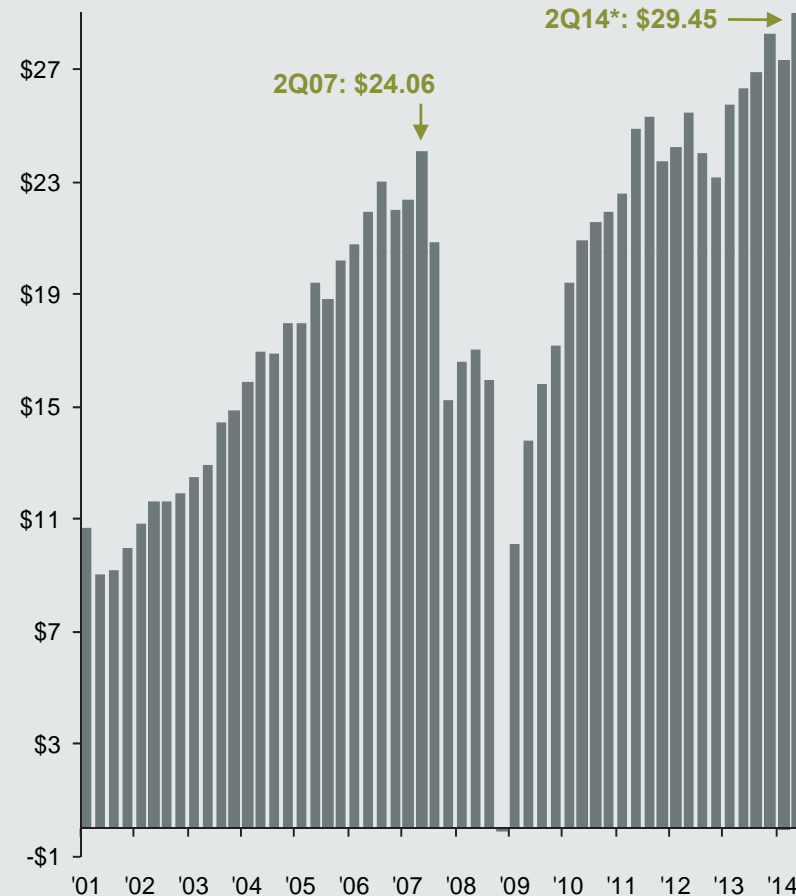


- With the S&P 500 reaching new highs in the second quarter, the Index's forward P/E remains slightly above the 2007 peak, but is well below extreme peak levels observed in 2000.
- With the rise in U.S. equity valuations over the past 18 months, investors may focus more on earnings growth than multiple expansion in the second half of 2014.

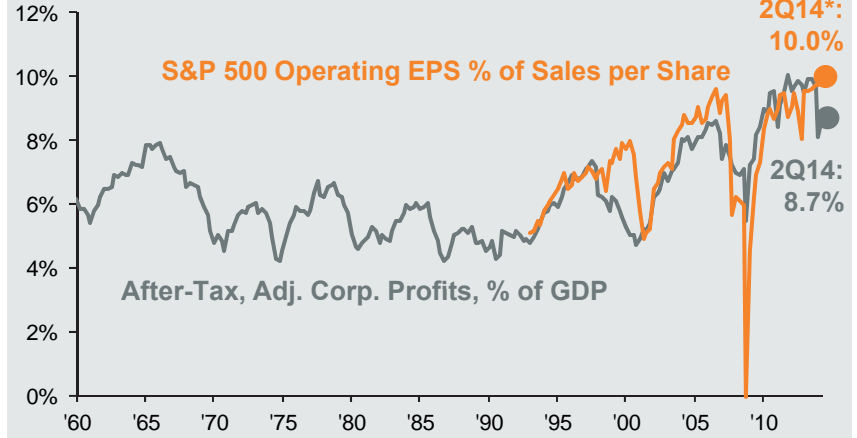
SOURCE: FactSet, S&P

Corporate Profits and Leverage

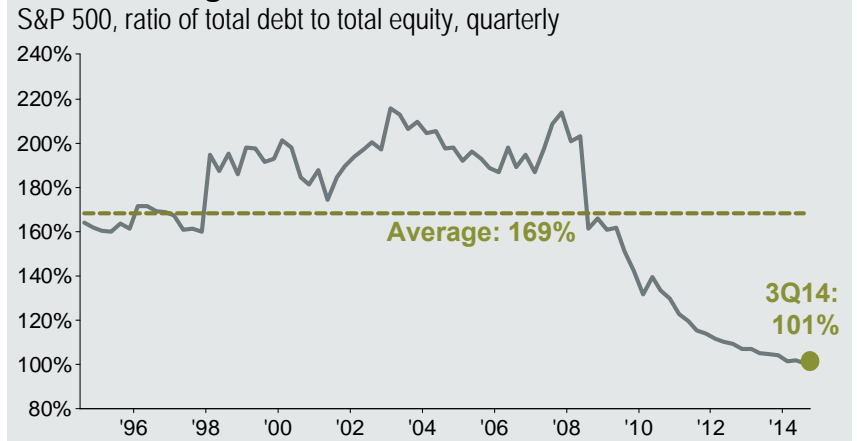
S&P 500 Earnings Per Share
Operating basis, quarterly



Profit Margins



Total Leverage



Source: BEA, Standard & Poor's, Compustat, J.P. Morgan Asset Management.

EPS levels are based on operating earnings per share. *Most recently available data is 1Q14 as 2Q14 are Standard & Poor's preliminary estimates.

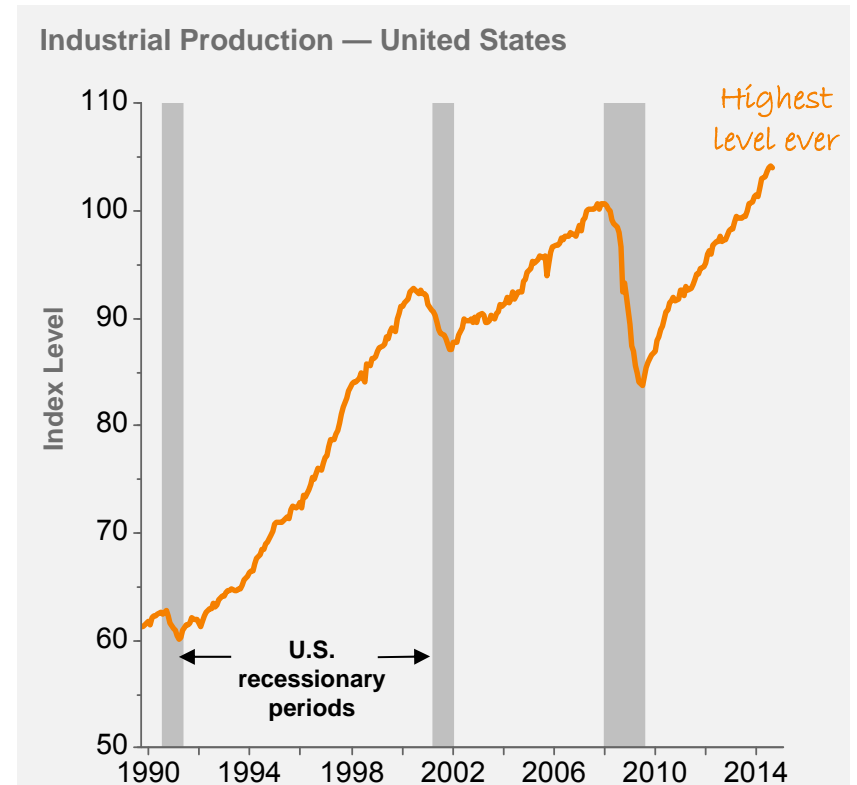
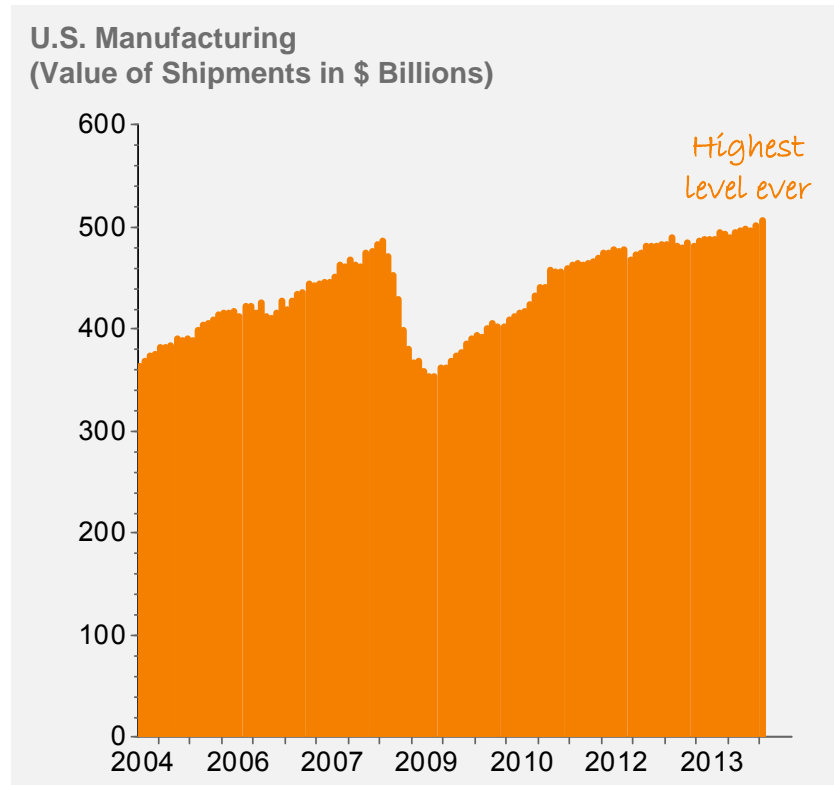
Past performance is not indicative of future returns.

Guide to the Markets – U.S.

Data are as of 9/30/14.

U.S. Manufacturing

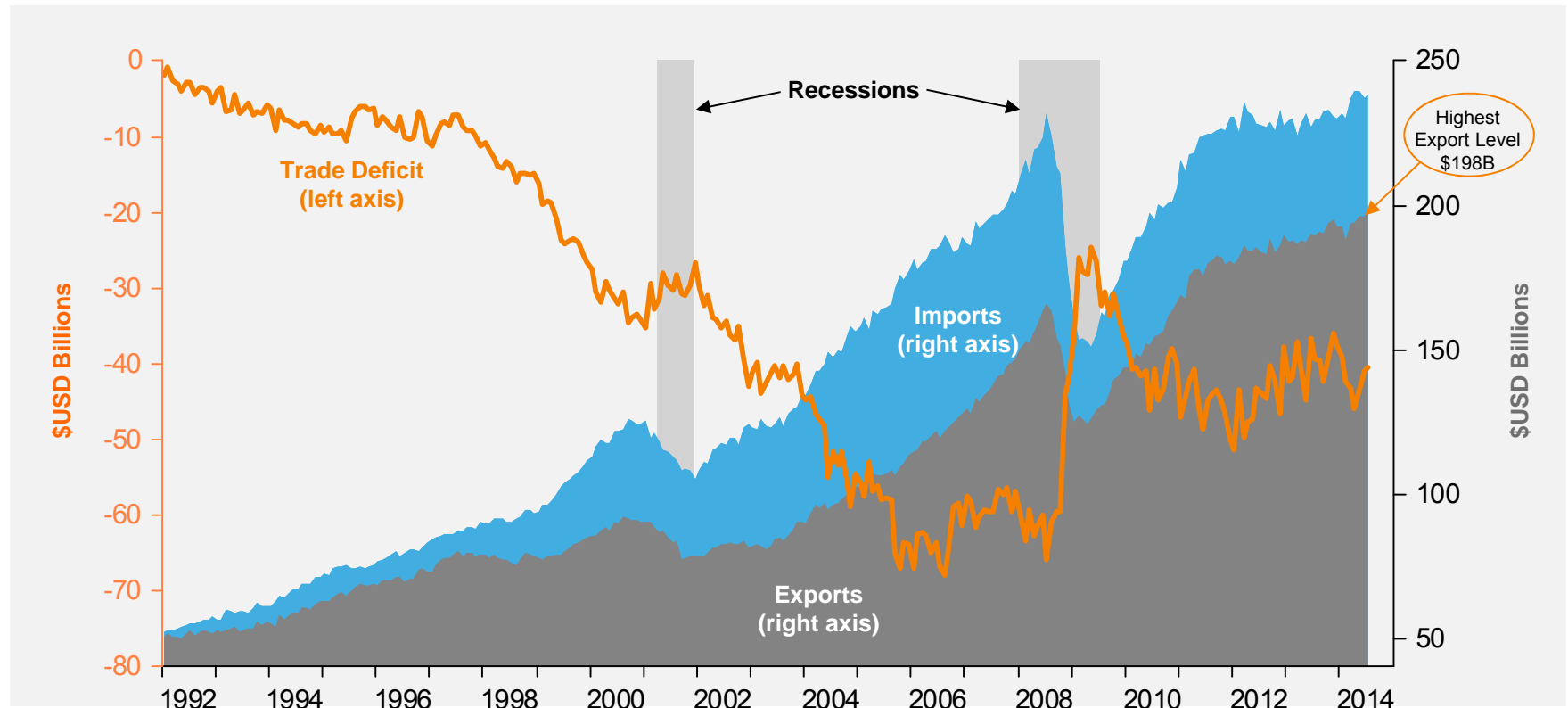
The latest U.S. manufacturing report shows the highest level of manufacturing shipments and industrial production ever.



U.S. Manufacturing data as of 09/30/14; Industrial Production data as of 08/31/14.
Source: FactSet

Tectonic Shift: Global Trade

Economic growth fuels demand for imports, aggravating the trade deficit, which hit a 10-year low in the great recession as demand dwindled. Exports have since expanded, reaching their highest level ever.

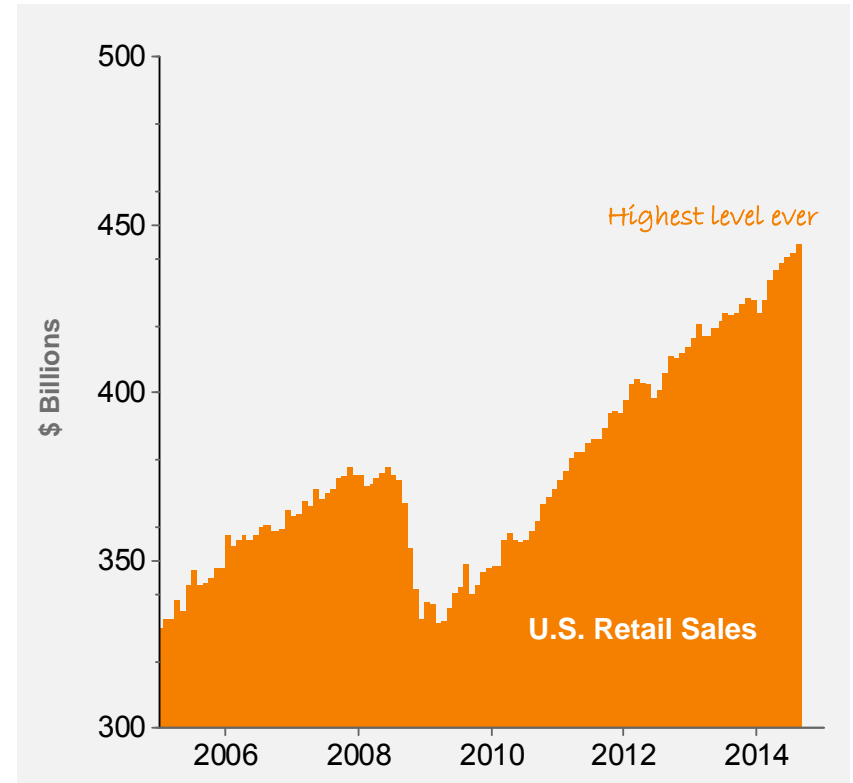
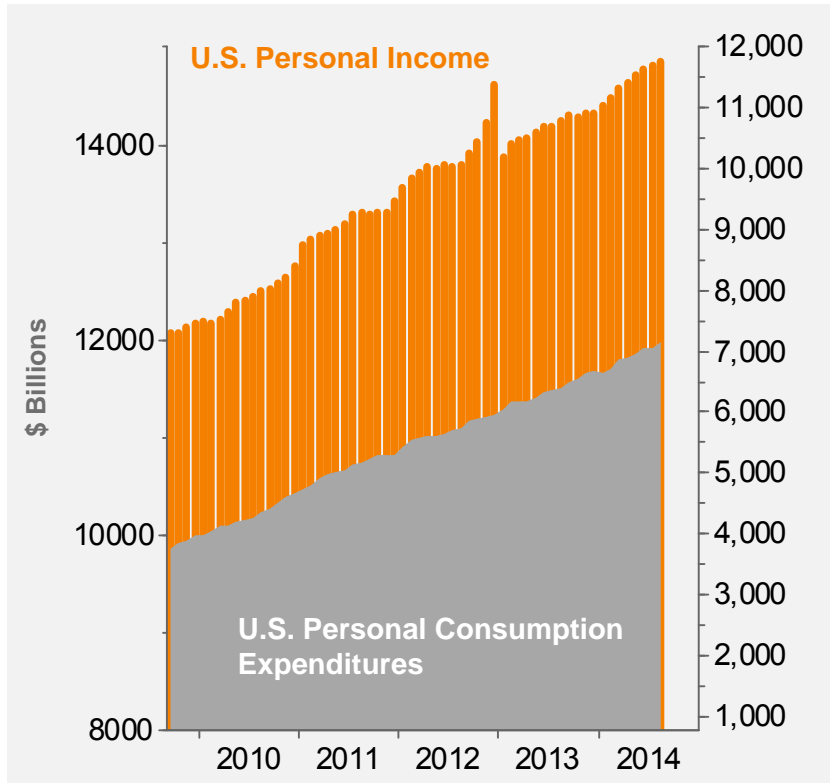


Tectonic Shifts

Data as of 07/31/14.
Source: FactSet

Consumer as Game Changer

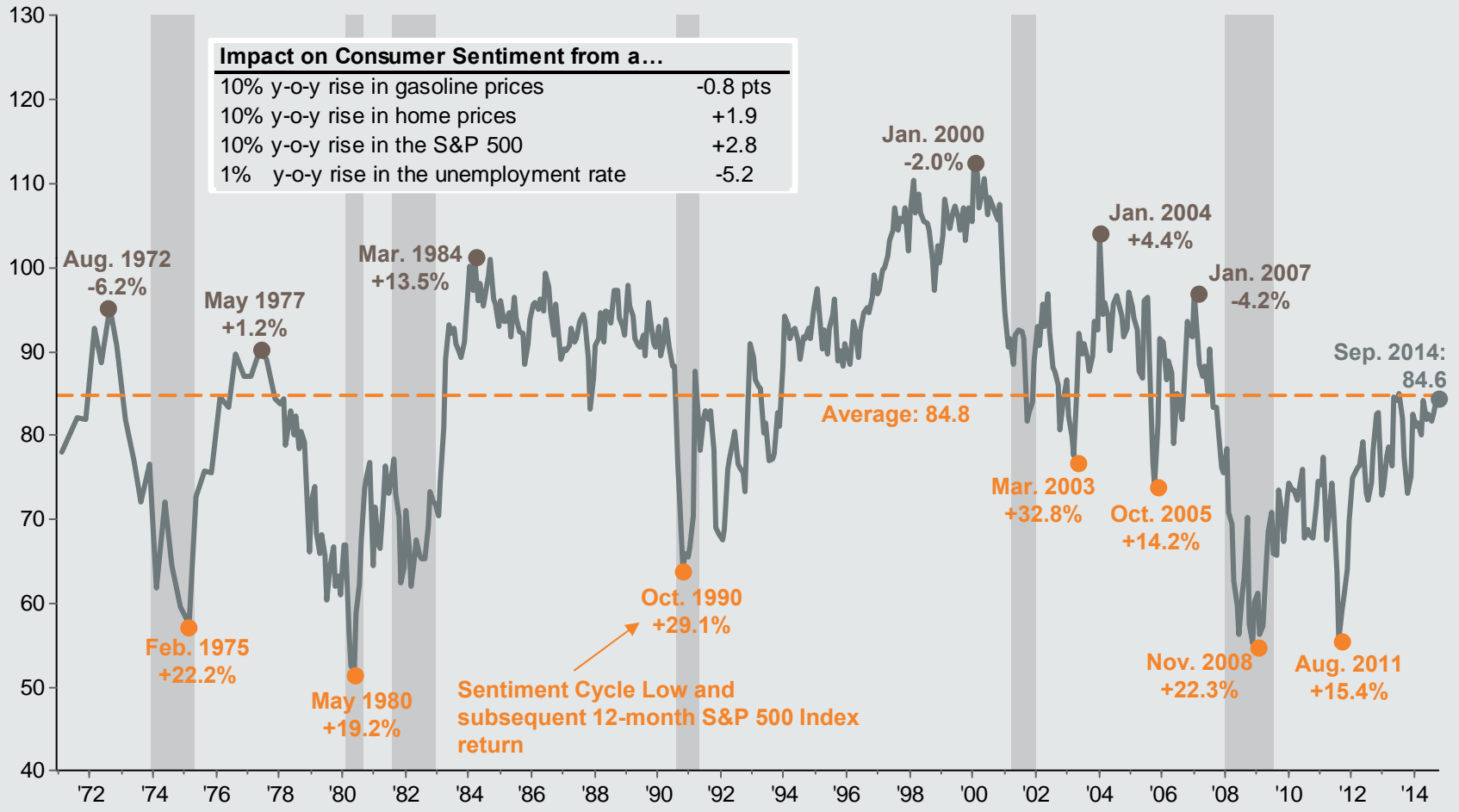
At about 70% of GDP, the U.S. consumer is the game changer in the economic recovery. Consumption, income and retail sales have achieved all-time highs.



Data as of 08/31/14.
Source: FactSet

Consumer Confidence and the Stock Market

Consumer Sentiment Index – University of Michigan



Source: University of Michigan, FactSet, J.P. Morgan Asset Management.

Peak is defined as the highest index value before a series of lower lows, while a trough is defined as the lowest index value before a series of higher highs. Subsequent 12-month S&P 500 returns are price returns only, which excludes dividends. Impact on consumer sentiment is based on a multivariate monthly regression between 1/31/2000 – 5/31/2014. Guide to the Markets – U.S.