



Views From The Heartland

Investment Perspective of Buena Vista Investment Management

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The Price of Oil and Higher Interest Rates to Drive Markets Will Macro Economic Events Interrupt This Bull Market in 2015?

2014 proved to be a very interesting year in the financial markets and a very frustrating year for active investment managers as investment returns for 2014 were very dependent on one's asset allocation. The overall range of returns is the widest we have seen in many years. The S&P 500 index registered an 11% gain while the small cap Russell 2000 index finished with only a 3.5% gain. Old technology soared while new technology fell. Interest rates were projected to rise but most yields were lower at the end of the year. While junk bonds produced their lowest returns in the last four years, high yielding utilities and dividend paying stocks rose to new highs. Commodity prices for the metals and oils hit multiyear lows.

In addition to the wide divergence in returns, volatility also returned to the equity markets in a big way as we began the month of September. Stocks hit new highs in the middle of the month, but then the dramatic decline in oil prices rattled the markets. Stocks then tumbled almost 10% only to rebound to new highs again before the end of October.

Widely divergent investment returns and market volatility were two issues investors had to deal with in 2014. We believe 2015 will be all about a rebounding US economy, a rebound in the price of oil, the Fed's first move to increase interest rates, and the potential for a lot of market volatility.

First, let's start with the US economy; most economists are predicting healthy growth and falling unemployment, and the recent drop in oil prices should cause consumer confidence to get even better. We think that the US economy will be a bright spot in 2015.

The dramatic drop in oil prices from north of \$100/barrel to less than \$60/barrel has resulted in many gloom and doom predictions by some, but we see the drop as a net positive for the global economy. As oil prices are driven by supply and demand, the recent decline in the price of oil is a direct result of US fracking technology causing an increase in supply, while demand has been flat.

In the short term prices could continue to decline with some Wall Street analysts predicting prices as low as \$40 a barrel. But from an investor's perspective, we think that this type of pricing will lead energy companies to decrease drilling and capital expenditures and OPEC, led by the Saudis, to announce production cuts. All this should lead to a stabilization of oil prices somewhere above \$60 a barrel, according to legendary oil man T. Boone Pickens.

From an economic perspective the decline in oil prices creates winners and losers. One of the winners is the US economy. According to Merrill Lynch, a \$10 decline in the price of oil creates a one-fourth percent increase in GDP in the United States. On the flip side, oil exporters such as Russia and Venezuela and small oil companies will suffer from low prices. In total, we are of the opinion that lower oil prices ultimately will have a positive effect on the US economy and equity markets.

(OVER)

Will Macro Economic Events Interrupt This Bull Market in 2015? (Continued)

If the price of oil wasn't enough uncertainty for global markets, then in 2015 we can add some interest rate uncertainty to the mix. The Federal Reserve Bank ended their quantitative easing program in October of 2014 and now the consensus is that they will begin raising the Fed Funds rate in 2015. It has been over six long years since the Federal Reserve Bank pushed the Fed Funds rate below 25 basis points, and now we will see how the equity markets respond to higher interest rates and a less accommodative Fed.

The key question for equity investors is when will the Fed increase its Fed Funds rate and how intense will the raise be? Since 1986, there have been six periods of tightening. The number of consecutive rate hikes, have ranged from one to 17. The upward extent of the rate increases have varied from a mere 0.25% to a significant 4.25%. Given that rates are abnormally low and the US economy is starting to hit on all cylinders, we think we could be in for a longer period of Fed moves.

Which leads us back to your stock investments; according to James Stack of InvesTech Research, Price/Earnings (P/E) multiples for stock historically tend to shrink in rising interest rate environments as higher bond yields provide greater competition for investor dollars. In the short term, rising rates can cause equity markets periods of indigestion. But when you look out one year after the first rate increase, equity prices are normally higher. All of that is logical as higher interest rates normally would mean the economy is doing well. If the economy is doing well, companies should be able to increase revenues and profitability. This should then offset the contraction in P/E multiples.

So as we begin 2015, we have a United States economy that is strong and getting stronger. Japan is implementing its own quantitative easing program, China is dropping lending rates, Europe's economy has stabilized, and the Europeans appear ready to begin their own asset purchases. Put all of these together and they have traditionally resulted in stock market appreciation.

As always there is a lot that could go wrong next year, such as an unanticipated global event. Barring something unexpected it is our belief that the economic pieces are in place for continued growth in the United States, higher short-term interest rates and higher stock prices. We are of the opinion that with the prospect for higher interest rates we could be in for a wild ride in 2015.

For additional supporting data on this newsletter please see the "Communications" section of the Buena Vista Investment Management website.

BUENA VISTA INVESTMENT MANAGEMENT LLC LONG-TERM MARKET INDICATORS

Buena Vista Conservative Buy/Sell Discipline:	Bullish (turned positive 1-2012)
Leuthold Major Trend Index:	Neutral (turned neutral 8-2014)
InvesTech Negative Leadership Composite:	Neutral (turned neutral 10-2014)
S&P 500 Stock Index:	2,058.90 (11.39% thru 12-31-14)
Dow Jones Total Market Index:	21,424.58 (10.36% thru 12-31-14)

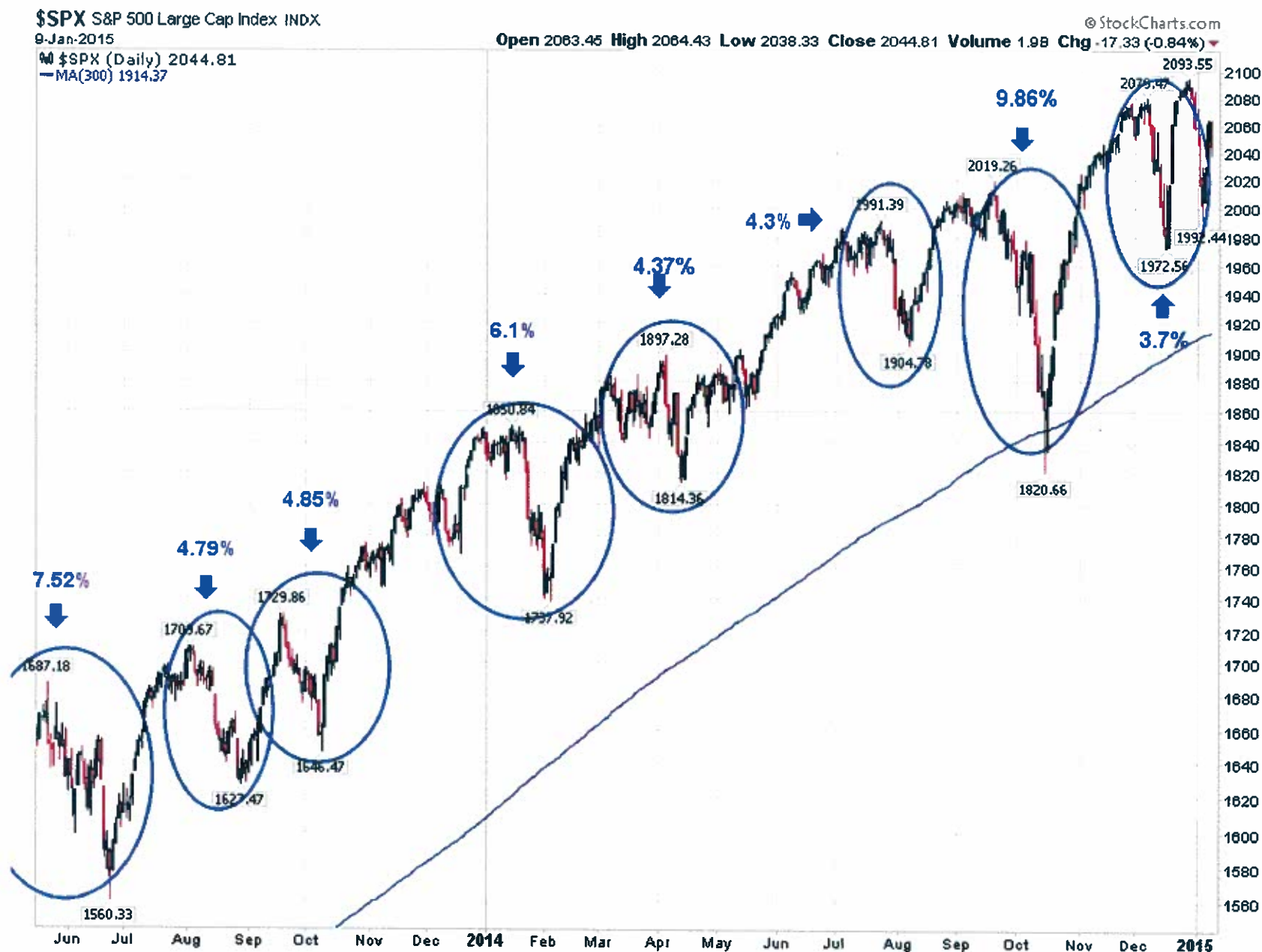
Important Disclosure – The performance numbers contained on this page are provided for informational purposes only. Returns may vary depending on personal objectives and timing of invested dollars. The performance numbers contained on this page are net of Buena Vista management fees and are based on 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.

Buena Vista Investment Management

Additional Newsletter Documentation

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Fed Hiking Cycles and Economic Cycles

As of 10/31/14

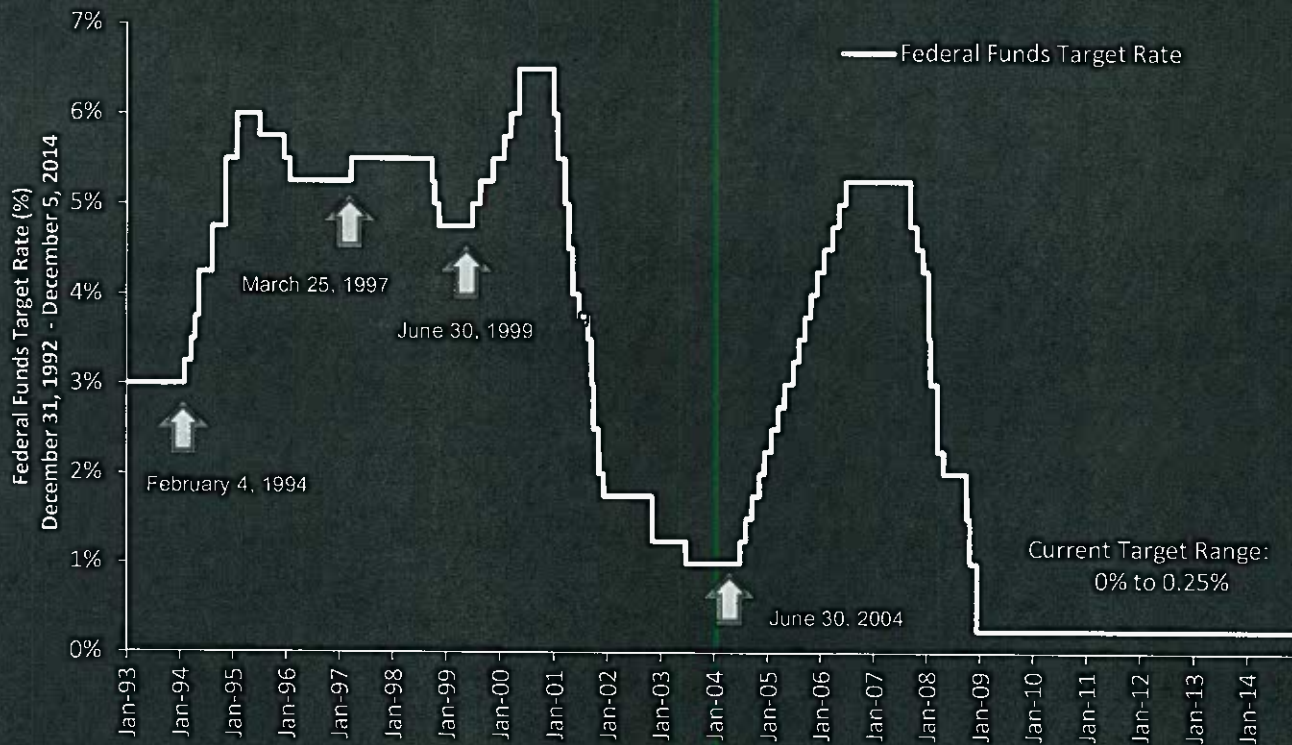
Starting Funds Rate Target (%)	First Rate Hike		Preceding Recession		Hiking Cycle		
	Date	Size (bps)	Trough Date	Months to 1st Fed Hike	Number of Rate Hikes	Size (bps)	Length (months)
5.88	Oct-86	12	Nov-82	48	4	137	9
6.50	Feb-88	25	No Recession		8	325	12
3.00	Feb-94	25	Mar-91	35	7	300	13
5.25	Mar-97	25	No Recession		1	25	1
4.75	Jun-99	25	No Recession		6	175	12
1.00	Jun-04	25	Nov-01	32	17	425	25
Current Cycle							
0.25	Jun-15*		Jun-09	72*			

*Note: June 2015 rate hike based on Bloomberg analyst surveys. Recessions according to National Bureau of Economic Research (NBER).
Source: Bloomberg; DoubleLine; Credit Suisse
Bps = basis points

Past Fed Tightening Cycles

December 31, 1992 – December 5, 2014

DoubleLine
FUNDS



Source: ValueWalk, "Taking a Lesson From Two Decades of Fed Rate Hikes" by Clayton Brown, July 1, 2014

\$NYAD NYSE - Advance-Decline Issues INDX

9-Jan-2015

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Open 3963.00 High 3963.00 Low 3963.00 Close 3963.00 Chg -780.00 (-16.45%) ▼

— \$NYAD Cumulative 3963.00



\$UST10Y 10-Year US Treasury Yield (EOD) INDX

9-Jan-2015

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Open 1.98 High 1.98 Low 1.98 Close 1.98 Chg -0.05 (-2.46%) ▼

— \$UST10Y (Daily) 1.98

