

# *Buena Vista Investment Management, LLC*

## *Creative Investment Solutions*

### Investment Strategy Update

May 22, 2012

With the Presidential election process heating up and the Euro zone issues once again front and center for investors; we thought it appropriate to bring you up-to-date on our thinking relating to our investment strategy for the balance of this year.

#### **BACKGROUND**

To begin this discussion we need to begin by putting recent market action into proper context. To do that we need to look back to November 25, 2011, a day on which the S&P 500 stock index hit an intraday low of 1158.66. The headlines on CNNMoney that day were "Another awful week for stocks, Thanks, Europe!" On that day the S&P index booked its eighth consecutive daily decline, due to a series of lackluster debt auctions and rising euro zone bond yields.

Over the next four months the stock market went on to post a 22.78% gain, topping out at 1422.38 on the last day of March 2012. Since then worries about corporate earnings in April and now renewed issues relating to fiscal health of Europe and its common currency have caused US equity markets to decline. But it should be pointed out that even with this recent decline, the S&P 500 is up a solid 11.48% over the last six months.

For those of you wanting to delve a little deeper into market action, the recent market decline is a 50% retracement of the November to April gain, technically good market action. A healthy "bull market" always has corrections or retracements of gains along the way. Our current "bull market" is no exception. But it is important to point out that markets hate uncertainty and the potential for a Greek exit from the Euro is creating a very high level of uncertainty, which in turn is causing the current market anxiety.

#### **MAJOR AREAS OF CONCERN**

For us there are two issues that dominate our investment meetings; First and most obvious is Europe. The second and in our opinion, the most important, is the 2013 fiscal cliff the US is moving toward.

It is currently déjà vu all over again, with the seemingly never-ending debate over the future of Greece, European debt and the future of the European currency. It has been our position that the 1.02 trillion euros that the ECB committed to the European banks earlier this year would give everyone some breathing room to work toward an acceptable outcome of the Greek situation. But recent elections in Europe have renewed concerns about the future of fiscal austerity. From our prospective, all of this means that we will see slower growth on the continent for the foreseeable future. The primary risk is that if Greece leaves the Euro it will be bad for market sentiment, at least in the short run.

For us, the bigger concern is the pending expiration of numerous tax laws in the United States at the beginning of 2013. If all of the spending cuts and tax increases go into effect on in 2013 it would have a major impact on future US economic growth and it would have a negative impact on US equity prices. Some economists have indicated if all of the spending cuts and tax increases were to take place it would impact US economic activity by about 4% or somewhere in the range of between \$500 and \$600 billion.

So right now, given their performance last year, it is very hard to have any confidence that our elected officials will find a way to keep us from walking right up to the edge of this cliff.

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Both of these issues are extremely complex and quite honestly, there is no way to accurately handicap the outcome of these events. We, like all investors will have to watch the events play out but we do have a strategy regardless of the outcome.

### **OUR STRATEGY**

It is our position that we could be nearing the end of the “corrective” market action we have seen over the last two months. Corporate earnings have been healthy, economic activity has been improving and unemployment should continue to trend down. Going forward, it is our intention to use any market strength in the second half of the year to increase cash positions, while we await the outcome of our elections and very important pending debate over expiring tax laws. We fully understand that cash in a portfolio is a lousy investment but we would rather error on the side of caution going into year-end.

Additionally, in some of our model portfolios and CIS portfolios we have reduced international equity exposure and moved those funds back into US equities.

Currently, all of our market indicators are healthy and point us in the bullish direction. As such, raising cash prior to them turning negative would be a departure from our normal investment discipline. But, we have determined that airing on the side of caution at this time is better than putting principal at risk during some crazy debate in Congress over the future direction of tax laws.

We will keep you informed as to any additional changes to portfolio allocations or investment strategy. If you would have any questions as to investment strategy, portfolio construction or the markets please feel free to contact us for further clarification.

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