



Views From The Heartland

Investment Perspective of Buena Vista Investment Management

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FINDING VALUE IN GENERAL MOTORS

GM Bonds Offer Investment Opportunity

By Joel Sullivan, Partner

General Motors is the world's largest automobile manufacturer. Last year it sold 8.2 million autos. They currently have a 27.2% share of the US auto market and as recently as December 2004, GM posted a \$1.2 billion profit. But that was then..... in 2005 GM announced it would post lower profitability, possibly even a loss, and **major rating agencies have lowered GM bonds to junk status**, sending yields soaring and GM's stock down 50%. Is GM an investment opportunity or a failing industrial giant?

Our opinion is that GM bonds offer an excellent investment opportunity! As a firm we normally will not invest in below investment grade bonds, but we believe that this is a unique situation. First, prior to the downgrade we held investments in GM bonds because of their attractive yield. After the downgrade we made a detailed analysis of GMAC and GM fixed income securities. Our conclusion was that this was **an excellent opportunity to lock up above-average yields for the next 3-6 years**.

As such, we decided to hold existing investments and use this situation to lengthen maturities and/or add new positions. These new bond investments gave our clients' **yields of between 8% and 10%**. And while we are positive on the fixed income securities of GM, we are not interested in owning any GM stock, as we believe the bonds have a significantly better risk/return profile. The fundamental issue for us, as bond investors, is whether or not the company has sufficient cash on hand and sufficient future cash flow to make interest and principal payments.

General Motors does have a great deal of financial flexibility. They have \$19.8 billion in cash on hand, plus \$35 billion in additional credit available. GM continues to pay a \$2 per share annual dividend, which is optional, not mandatory. Also, GM has access to \$20 billion in the Voluntary Employee Beneficiary Association fund, which was set up by them specifically to deal with excess health care costs. It is our opinion that GMAC, the financing arm of GM and one of the nation's largest mortgage lenders, is a strong component of GM and one that could be monetized to create value.

Of course, **GM does have many challenges**; declining market share, lower sales for their profitable SUV line, and most importantly, health care costs estimated to be \$5 billion per year for about 1 million employees and retirees. We feel GM will address these problems in the months and years to come. They have taken steps to improve their product line, with new models being rolled out over the next year. They are updating SUVs and improving their fuel efficiency. They have also begun to address health care costs by opening talks with the UAW. One option being discussed is to have employees and retirees begin to pay \$50 per month toward their health insurance. We estimate that this could generate \$500 million per year in extra cash flow for GM.

It is our opinion that the risk and reward for investing in 3 to 6 year GM and GMAC bonds is solidly in favor of the investors. At today's prices, investing in a **GM bonds for six years yields a full 5% more than comparable US Treasury Notes**. This is a risk/reward spread we like.

BUENA VISTA INVESTMENT MANAGEMENT LLC

LONG-TERM MARKET INDICATORS

Buena Vista Conservative Buy/Sell Discipline:	Buy (solidly in bullish territory)
Leuthold Major Trend Index:	Bullish (moved away from neutral zone in 2 nd quarter)
Coppock Guide:	Buy (a good buy signal but less reliable on the sell side)
S&P 500 Stock Index:	1,191.33 (-1.70% thru 06-30-05)
Wilshire 5000:	11876.74 (-0.79% thru 06-30-05)

Buena Vista Current Investment Strategy – As noted above, our long-term market indicators are now in bullish territory after coming close to issuing a “sell” signals during the first portion this year. So we remain fully invested until our long-term indicators dictate otherwise. It is amazing to us that the stock market internals still look strong in spite of sharply higher oil prices and indications of higher inflation in the future. Our strategy remains as detailed in previous issues of this newsletter; if we would see a 6% to 8% gain in our equity portfolios, we will begin to move a portion of the portfolio into no risk investments, as we move to protect principal after almost three years of rising stock prices. **We remain cautiously bullish for now.**

DIVERSIFIED MUTUAL FUND PROGRAM

Income and Growth Strategy – The portfolio performed in a steady manor during the first of 2005, consistent with the low volatility approach utilized by this strategy. Declines in interest rates during the first half of 05 increased performance for the bond portion of the portfolio. Matthews Asian Growth & Income, JP Morgan Mid Cap Value and Calvert Income fund were the top performing investments in the strategy year to date. International exposure was increased by 8% during the first half of 2005.

2005 YTD Performance for the Income & Growth strategy was 0.83%.

Total Return Strategy – The strategy remains 100% invested in equity mutual funds. There have been no major changes to this strategy during the first half of 2005. We remain overweighted to Janus Mid Cap, Oakmark Equity Income and Matthews Income & Growth funds. All three investments have provided solid performance during the first half of this year.

2005 YTD Performance for the Total Return strategy was 1.45%.

Conservative Equity Strategy – The portfolio continues to outperform its broad stock market benchmark while utilizing a conservative asset allocation approach. There were two changes made to the portfolio in the first half of 2005. International exposure was increased by 10% with the addition of MFS Intl. New Opportunities fund and JP Morgan Mid Cap Value replaced C&B Mid Cap fund. The JP Morgan fund is the best performing domestic equity fund in the Buena Vista approved mutual fund universe.

2005 YTD performance of the Conservative Equity strategy was 0.98%.

Hedged Strategy – The strategy remains 90% invested. During this quarter we initiated a position in General Motors bonds with a 3 year maturity. The strategy now has 10% in money funds, 20% in fixed income and the balance in equity investments.

2005 YTD Performance for the Hedged strategy was 0.06%

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 based on specific investments initiated by Buena Vista Investment Management LLC on various dates. The information on this page is not an advertisement of performance or a solicitation for business. Contact Buena Vista Investment Management LLC for more information concerning investment performance and market data. Do not rely on this information to make investments.

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