



Views From The Heartland

Investment Perspective of Buena Vista Investment Management

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INVESTING IN NON-RENEWABLE RESOURCES

Riding This Long-Trend Trend Should Be A Winning Strategy

By John Moffat and Joel Sullivan

Identifying a long-term trend, investing in it and then riding the wave to above average profitability is the proverbial “Holy Grail” for investors. For the purpose of this discussion, we would define long-term trends as investment ideas that have the potential to deliver quality investment returns over a period of time, in excess of seven years. An example of **a very profitable and very long (25 years) investment trend, was the decline in interest rates that began in 1981**. Investments made in the 1980’s in longer-term fixed income securities produced enormous returns for investors.

This newsletter has spoken about the trend toward economic globalization and the emergence of the developing economies many times in the past. These two issues are the foundation for a new long-term trend; investing in non-renewable resources such as coal, minerals, oil and gas.

We begin with one of the most basic economic principals; supply and demand. We have all heard the stories of the economic growth in China, Mexico, Russia, India and Brazil. These are large populations that are embracing capitalism in one form or another; this means the demand for housing, buildings, autos and consumer goods is rising. So on one side of the equation we have rising demand. The other side of the equation is supply and here we have the non-renewable resources which are currently used to build these things and power the autos. Non-renewable is just that, a limited supply. **Rising demand and limited supplies normally equal one thing; higher prices.** Higher prices means higher profitability for the companies owning these materials and greater profitability means higher stock prices. **BINGO!**

Investing in non-renewable resources can be accomplished in many different ways. There are the global metals players such as Rio Tinto (PTP) or Rio Doce (RIO). The cement market is dominated by Cemex (CX). Coal for power and steel plants is provided by Fording Coal (FDR) and Arch Coal (ACI). North of the boarder we have lots of Canadian companies producing oil and gas. If you want to drill down a bit there is AES Corporation (AES) a global electricity provider.

Consider these facts, according to Houston based Far East Energy Corp., China’s electricity consumption is expected to grow 15% annually over the next few years and coal is now used for over 60% of it’s energy needs. **In the next eight years China is expected to build 500+ power plants, India 200+ and the US 72 plants.** A recent Canadian press article indicates that India will spend \$45 billion US to pave 50,000 kilometers of road by 2012 and Chinese car sales are expected to grow 10%+ annually in the near term.

It seems to us that investing in non-renewable resources, based on above average demand from the emerging markets of the world, is a trend that we can count on for the foreseeable future. Yes, there will ups and downs to these investments along the way. Yes, there will be alternatives coming to market if prices keep rising. **But for now there is an old saying on Wall Street; The Trend Is My Friend!**

OVER

BUENA VISTA INVESTMENT MANAGEMENT LLC

LONG-TERM MARKET INDICATORS

Buena Vista Conservative Buy/Sell Discipline:	Close to a sell signal after market decline in June
Leuthold Major Trend Index:	Negative (moved back to negative in April 2006)
Coppock Guide:	Buy (a good buy signal but less reliable on the sell side)
S&P 500 Stock Index:	1270.20 (+1.76% thru 6-30-06)
Wilshire 5000:	12,849.29 (+2.65% thru 6-30-06)

Buena Vista Current Investment Strategy – As noted above, the Leuthold Major Trend Index is still negative and our own proprietary indicator is close to issuing a “sell” signal. We raised a substantial amount of cash in portfolios during the second quarter and will continue to increase the money market component of portfolios, as warranted. It remains our position that the U.S. equity market may experience additional declines in value during the final half of 2006. Our above average allocation to money market investments should then provide us with a real opportunity to add value to the portfolios when this market correction runs its course.

DIVERSIFIED MUTUAL FUND PROGRAM

Income and Growth Strategy – This is our most conservative investment strategy with 30% allocation to short and intermediate-term fixed income securities. Although the fixed income component of the portfolio has been a drag on portfolio returns during 2006, this should change once the Federal Reserve Bank stops increasing interest rates. **Performance for the Income & Growth strategy YTD 2006 was 2.79%.**

Total Return Strategy – There are two fairly big changes in store for this strategy. During the third quarter we will be removing Oakmark Equity & Income fund and Leuthold Core fund. Leuthold Core has been closed to new investments, so a swap into Leuthold Asset Allocation fund is on tap. Oakmark is being removed, as we position the strategy to become a bit more aggressive when the U.S. equity markets finally bottom out later this year. Until we become more bullish, the funds raised from sales will be held in money market fund investments. **Performance for the Total Return strategy YTD 2006 was 5.76%.**

Conservative Equity Strategy – Although it has only been six months, we are pleased with the portfolio changes we made to the strategy in January. At that time we added James Small Cap fund which is up 10.65% YTD and the Permanent Portfolio which is up 7.70% YTD. The other major change to the strategy was to increase the money market position to 20%. This has also proved to be beneficial as the overall market has moved lower since we made that change. **Performance for the Conservative Equity strategy YTD 2006 was 4.80%.**

Absolute Retrn Strategy – The hedged investment strategy has performed extremely well given its limited stock exposure and the improvement in pricing for its allocation to General Motors bonds. With portfolio returns substantially above general equity returns, it is anticipated that the risk free money market component of the portfolio will be increased once again. **YTD 2006 Performance for the Hedged strategy was 7.22%**

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 investments that have been in place since 1-1-04. 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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