



Views From The Heartland

Investment Perspective of Buena Vista Investment Management

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Solid First Half Performance

Protection of Gains Now A Priority

By John Moffat and Joel Sullivan, Partners

The US and International markets posted solid gains over the first six months of 2007. The S&P 500 stock index generated a 6% return, while the EAFE (Europe, Australia and South East Asia) index was up over 9%. All of our own mutual fund strategies posted gains in excess of their respective indices, with the Total Return strategy generating a double digit first half gain.

During the second quarter we took the unusual step of raising the percentage allocation to money market investments, while our internal indicators remained positive. We are of the opinion that protecting the hard won gains of the last four years should now be our first priority. As such, a higher allocation to a no risk investment, such as a money market funding yielding close to 5%, is appropriate.

Currently, our two equity market indicators are giving a mixed picture. The Buena Vista Buy/Sell Discipline remains firmly in positive territory and we would need an 8% decline in the S&P 500 before we would get a sell signal. The Leuthold Major Trend Index, which is more of a leading indicator, dropped into the neutral range during May.

So why would we move to a higher money market allocation at this time? The answer is multifaceted. After four years of solid returns, how long can this market go without a healthy market correction?



Our first job is to make it.....
Our next job is to keep it.....
Steve Leuthold, Leuthold Asset Management

The primary driver for higher stock prices over the last four years has been soaring corporate earnings, stable interest rates/inflation and solid global economic growth. Now, corporate earnings are slowing, interest rates and inflation have been trending up and US economic growth as evidenced by GDP growth has been slowing.

From our vantage point, inflation has been on the rise as global demand outstrips the supply of global commodities, which has caused food and energy prices to rise substantially. Interest rates have also moved up since the beginning of 2007, with rates going from 4.25% to 5.25% on the 10 year Treasury. Corporate earnings are definitely slowing from their torrid pace of the last few years. This bull market is “long in the tooth” at 56 months and counting, as compared to the median age of bull markets since World War II of 38 months. And then there is the wild card; the U.S. Presidential election. There is no question that there will be a change in Washington. Wall Street likes certainty and continuity, something we don’t have in Washington at this time. Finally, there are the seasonal factors, the vast majority of stock market gains are achieved between November and April.... There is an old saying on Wall Street.... *invest till May, and then go away*. And historically the third quarter is the most difficult quarter for investors; remember 1987.

All of these factors lead us to be more cautious. For now, maintaining a higher allocation in a risk free investment seems prudent to us.

Over

BUENA VISTA INVESTMENT MANAGEMENT LLC

LONG-TERM MARKET INDICATORS

| | |
|---|--|
| Buena Vista Conservative Buy/Sell Discipline: | Buy |
| Leuthold Major Trend Index: | Neutral (moved to neutral in May 2007) |
| Coppock Guide: | Buy (a good buy signal but less reliable on the sell side) |
| S&P 500 Stock Index: | 1,503.35 (+6.0% thru 6-30-07) |
| Wilshire 5000: | 12,849.29 (+6.6% thru 6-30-07) |

Buena Vista Current Investment Strategy – During the second quarter we increased our allocation to risk free money market investments in our managed portfolios and decreased our equity allocations. Current allocations to money market investments are between 15% and 20%. We are anticipating increased volatility during the summer months, without much net price movement in the major averages. International growth remains strong with the developing markets leading the way, but GDP growth for the US economy seems to be slowing. In our opinion, the risk to equity prices is rising (see page1) but not enough to cause us to turn fully negative, just cautious.

DIVERSIFIED MUTUAL FUND PROGRAM

Income and Growth Strategy – The strategy significantly outperformed its benchmark, during the first half of this year, with a return of 3.4%. The Ariel Fund, which invests in small to medium sized U.S. companies, was the leading contributor to performance, posting a year to date return of 12.4%. There are no changes planned for the portfolio at this time. **Performance for the Income & Growth strategy YTD 2007 was 6.7%.** (Benchmark Vanguard Balanced Index 3.42%)

Total Return Strategy – The strategy posted excellent gains in the first half of 2007. Performance was enhanced by Matthews China Fund and Ivy Natural Resources Fund which posted first half gains of 29% and 21% respectively. The China Fund is now up almost 95% in the last two years, a number that concerns us. China remains a good long-term investment but in the short-term we have valuation issues. **Performance for the Total Return strategy YTD 2007 was 10.4%.** (Benchmark S&P 500 Index 6.0%)

Conservative Equity Strategy – Our Conservative Equity strategy also beat its benchmark, led by the Keely Small Cap Fund, which posted a gain of 13% YTD. Overall performance for this strategy was held back slightly by our higher allocation to money market investments. There are no investment changes planned at this time but if conditions warrant, we will increase the allocation to no risk money market investments. **Performance for the Conservative Equity strategy YTD 2007 was 7.6%.** (Benchmark Wilshire 5000 Index 6.68%)

Absolute Return Strategy – A higher than normal allocation to money market and fixed income caused this strategy to under perform in the first half. Our equity allocation is now 50%; fixed income is 30% and money market 20%. We anticipate reducing our exposure to fixed income during 2007. **Performance for the Absolute Return strategy YTD 2007 was 4.5%.**

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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