



# Views From The Heartland

*Investment Perspective of Buena Vista Investment Management*

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## INVESTMENT STRATEGY UPDATE

### Stock Market Indicators Issue A “Sell” Signal

By John Moffat and Joel Sullivan, Partners

As we write this newsletter, two of our three market indicators have issued a “sell” signal. The Buena Vista Conservative Buy/Sell Discipline and the Leuthold Major Trend Index both moved to a “sell” after the markets closed on July 6<sup>th</sup>. **Based on this occurrence we have raised our allocation to money market fund investments.**

We have to admit that we reduced equity exposure with a good deal of reluctance but we felt we must stick to our investment disciplines. **As a firm, we remain cautiously optimistic and believe that equity prices will end the year higher than where they started.** This view is based on our belief that economic trends are improving. A detailed discussion on the reasons why we have been “patiently bullish” is contained in the last two issues of this newsletter; Economy Will Continue to Improve in 2010 (December 2009) and Corporate America Is Alive & Well (March 2010).

**Our investment disciplines or indicators have been put in place to help us sort out conflicting economic data and remove some of the human emotion when making investment decisions.** In this situation, we may not totally agree with them but will follow them, as they have played a big part in our ability to generate quality investment returns for our clients over the last eight years.

What is so unusual is that these two indicators issued a “sell” signal on the same day. That has never happened before. The Leuthold Major Trend Index is **a leading indicator**. This means that it will usually provide a “buy” or “sell” signal prior to the market peaking or bottoming. On the other hand, the Buena Vista Conservative Buy/Sell Discipline was designed to be **a lagging indicator**. This means it will generate signals after a market peak or a market bottom.

It is important to note that we do use a trio of indicators to help us in the “sell” decision making process. The InvesTech Negative Leadership Composite is **the third indicator** and it too is considered to be a lagging indicator. In recent weeks this indicator has moved closer to a “sell” but for now remains positive.

So with two indicators moving to a “sell”, we did increase our allocation to no risk money market fund investments on July 7th. The changes to the various portfolio strategies are listed on the back page of this newsletter. **If the Negative Leadership Composite goes into “sell” mode then we will make an additional allocation to no-risk investments.**

Conversely, it is possible that the markets could quickly reverse direction, as they did in 1998 after the “Asian Contagion” and the collapse of Long-Term Capital Management. If that would happen and our indicators moved back into positive territory then we would increase equity allocations. **The key to our investment strategy is to remain flexible and let our time tested indicators do their job.**

# BUENA VISTA INVESTMENT MANAGEMENT LLC

## INTERMEDIATE-TERM MARKET INDICATORS

Buena Vista Conservative Buy/Sell Discipline:	Negative (issued a "sell" signal in 7-2010)
Leuthold Major Trend Index:	Negative (issued a "sell" signal in 7-2010)
InvesTech Negative Leadership Composite:	Buy (remains is a "buy" signal since May 2009)
S&P 500 Stock Index:	1,030.71 (-7.57% thru 06-30-10)
Wilshire 5000:	10,750.00 (-6.50% thru 06-30-10)

## DIVERSIFIED MUTUAL FUND PROGRAM

### Income and Growth Strategy – YTD 2009 performance: -1.66% (Benchmark: Vanguard Balanced -2.48%)

We made two changes to the strategy in the second quarter. The first was to add American Century Equity Income fund, for the reasons listed below in Conservative Equity. Second, we replaced Calvert Income fund with JP Morgan Core Bond fund. This was done to add more consistency to our performance. The environment for bonds could become more challenging in the quarters to come and we wanted the experience and approach of JP Morgan. On July 7<sup>th</sup> this strategy reduced equity exposure by 20%. Sale proceeds were used to increase the cash allocation of the strategy. The strategy's exposure to the stock market now stands at 50%.

### Conservative Equity Strategy – YTD 2009 Performance: -3.16% (Benchmark: Wilshire 5000 -6.50%)

In the second quarter we replace the Cambiar Opportunity fund with American Century Equity Income fund. The fund was chosen for its dividend income component and its relative out performance in difficult markets. Additionally, the fund's current manager, Phil Davidson has been at the helm for 15 years and has successfully guided the fund through up and down markets.. In a defensive move, we increased our allocation to cash on July 7<sup>th</sup> to 30% of portfolio investments. This was accomplished by trimming our holding in 5 funds and eliminating the Keely Small Cap fund.

### Total Return Strategy – YTD 2009 Performance: -5.00% (Benchmark: S&P 500 -7.57%)

The strategy increased cash exposure during the first week of July to 25% of total portfolio investments. Funds were raised by reducing allocation to all portfolio investments. Currently, international investments make up 20% of portfolio investments and mid-capitalization funds also have a 20% allocation. It is our intention, when we decrease the allocation to money market fund investments, to increase our allocation to small and mid capitalization funds. This will include adding a small capitalization international fund.

### Absolute Return Strategy – YTD 2009 Performance: -7.78%

The strategy has remained fully invested through this market decline which has created below average portfolio returns during the first half of 2010. The strategy currently has an 8% allocation to individual stocks 70% to mutual funds and 20% to a leverage S&P 500 stock position. The strategy's largest percentage allocation is to the Permanent Portfolio fund (28%). The fund investment positions include; Swiss Francs, real estate, commodities and precious metals and growth stocks. It is our intention to reduce the strategy's levered position during any market rebound.

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.

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