Views From The Heartland

Investment Perspective of Buena Vista Investment Management

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POLITICS AND YOUR INVESTMENTS

Global Political Events Moved Equity Markets in 1st Half of 2011

Political events around the globe continued to impact your investments as we finished the first half of 2011. The year began with political upheaval in Egypt, which then spread to other countries in the Middle East. As we moved into the second quarter of this year, the financial community began to once again focus on the debt problems of Greece and the United States. In this issue we examine the current political environment and how it may impact investment returns during the second half of 2011.

To recap the first half of 2011; the S&P 500 experienced a 7% correction in the first quarter as the markets dealt with the political uncertainty in the Middle East. Market angst was again elevated in the second quarter by political uncertainty. Here in the United States our elected officials debated, argued and postured over the debt ceiling limits, while elected officials in Europe dealt with Greece and worries over the refinancing of Greek debt. All of this angst caused US equity markets, as measured by the S&P 500 stock index, to decline by 8.2% in May and June before finally rebounding, ending the quarter almost exactly where we started it.

As investors here in the United States, should we really be concerned with Greece? Could a Greek default cause a “bear” market in US equities? First, let’s look at the size of the Greek economy relative to the world economy. Greece represents ½ % of world Gross Domestic Product (GDP). The GDP of Greece is about $310 billion. To put that in perspective, that puts Greece about midway between the economies of Wisconsin ($252 billion) and Michigan ($372 billion). So in absolute terms, Greece is not a major player in the world’s economy. In fact, Greece’s economy makes up less than ½ of 1% of total global GDP.

However, on a day to day basis global financial markets are driven by emotion and psychology. Although Greece is a minor player in global financial markets, the real issue for us as investors is that the fear of a default could cause a 2008 type contagion that could spread to other European countries and that European banks would be negatively affected. So in the short-term, Greece does matter….. In the longer-term Greece is a small player on a big stage.

It is also important to understand that defaults by nations are not uncommon, especially for Greece. Economists Carmen Reinhart and Kenneth Rogoff documented in their 2008 research that Greece has defaulted or rescheduled its debt 5 times since 1829. Argentina has defaulted 3 times since 1980. Mexico and Brazil defaulted in 1983 and nearly defaulted in 1989 until US Treasury Secretary James Brady came up with a the bailout plan which included loan guarantees and other creative solutions. Global financial markets can and will deal with Greece.

This leads us back to the United States. There is no question that we have a debt problem in this country and it is going to take hard work and creativity by our elected officials to solve this problem. With that said, there is absolutely no reason for the United States to default on its debt. This problem is a long-term problem that should be dealt with logically and over an extended period of time.

So what does this mean for your investments? First, financial markets trade not just on data, but on emotion as well. Overall levels of confidence and fear can have significant impacts on the market, especially in the short term. Greece and the US debt ceiling issue have caused the markets some short-term indigestion but can be dealt with responsibly over the long-term.

OVER

POLITICS AND YOUR INVESTMENTS (continued)

The bottom line for us as investors is that the global economy is growing with some areas stronger than others. The US economy is also growing, albeit at a slower pace than many would like. For now, the reality for investors is that we will have to deal with this slower pace of growth for the foreseeable future. Spending cuts on the state and federal level will have a negative impact on economic activity. On the other hand, Corporate America is extremely healthy and should provide an offset to slower governmental spending.

Our forecast of 1350 to 1450 on the S&P 500 stock index remains in place. We continue to believe that 2011 will turn out to be a solid year for investment returns on equities.

BUENA VISTA INVESTMENT MANAGEMENT LLC

INTERMEDIATE-TERM MARKET INDICATORS

Buena Vista Conservative Buy/Sell Discipline:	Buy (issued a "buy" signal in 9-2010)
Leuthold Major Trend Index:	Positive (as of June 29th)
InvesTech Negative Leadership Composite:	Buy (remains is a "buy" signal since May 2009)
S&P 500 Stock Index:	1,320.64 (5.01% thru 06-30-11)
Wilshire Market Index:	14023.07 (5.10**%** thru 06-30-11)

DIVERSIFIED MUTUAL FUND PROGRAM

Income and Growth Strategy – **YTD 2009 performance: 3.94% (Benchmark: Vanguard Balanced 3.79%)**

We are currently maintaining an allocation of 70% stocks and 30% bonds. Our bond funds have contributed nicely to overall returns this year. It now appears the Federal Reserve Bank is unlikely to raise rates this year, which will continue to be a positive for the bonds investments in the strategy.

Conservative Equity Strategy – **YTD 2009 Performance: 4.21% (Benchmark: Wilshire 5000 5.10%)**

We added American Century Heritage fund to this portfolio at the end of last year. This has proved to be a timely addition as it was our best performing fund in the portfolio through the first 6 months. So far this year, US equity funds have contributed more to the return than international. However, we see no reason to alter our current allocation of 17% to international equities.

Total Return Strategy – **YTD 2009 Performance: 3.02% (Benchmark: S&P 500 5.01%)**

The strategy is currently fully invested with 30% invested internationally. The international weighting proved to be a drag on strategy performance so far in 2011. The strategy's focused investments in Asia and Latin American investments underperformed diversified international funds. We are currently identifying potential new investments for the large cap and mid cap areas of the strategy.

Absolute Return Strategy – **YTD 2011 Performance: -0.24%**

The strategy is fully invested and is currently using a leveraged position. The strategy's investments in natural resources, specifically the allocation to commodity rich Latin America, have hurt performance during the first half of 2011.

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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