



Views From The Heartland

Investment Perspective of Buena Vista Investment Management

Volume 10 Issue 2
June 2012

Global Uncertainty Causes Market Decline in 2nd Quarter But US equities post solid gains in first half.... Now what?

Global uncertainty dominated the news flow in the second quarter causing equity markets to move lower on negative news. Is China headed for a hard landing? Is the Euro going to cease to exist? What will happen at year end if Congress does not pass legislation to lessen the effect of the looming “fiscal cliff”? As a result of this onslaught of negative headlines, the S&P ended 3.27% lower in the second quarter and international markets fell 6.86% in the last three months. All this global uncertainty caused investors to move funds into the United States treasury market, pushing the ten year treasury yield to an all-time low 1.46%.

So with all of the negative news flow, are we nearing the end of this bull market run that started in 2009? In order to answer this question, we need to explain our position on the issues which caused the markets to decline in the second quarter.

Is China headed for a hard landing?

It is our position that a hard landing will not occur in China. Additionally, we believe that slower growth in China will actually be beneficial in the long run. For most of the last decade, China has enjoyed double digit GDP growth, but with such high growth rates there can be problems. Most economic experts believe that slower growth in China would actually be positive. Currently, the Chinese economy is in the beginning of a major transition, from reliance on exports to becoming a more consumption based economy. This transition is good long-term but may mean a slowdown in the short-term. In response, China has begun to decrease interest rates to stimulate their economy and they can also tap into the trillions of dollars of reserves to add further stimulus, if necessary.

Is the Euro doomed?

It is our position that the Euro will still be in existence in the next year. There is no question that Europe has its share of issues to deal with but the demise of the Euro is still too early to call. In recent months, the fear of Greece leaving the Euro has led to speculation that Spain and Italy may also be in trouble. We think it is important to point out that austerity programs have been implemented in both these countries. More specifically, Spain reported recently that budgetary targets were being met in the first half of the year, both on a national and regional level. Italy’s budget cuts started last fall and they are now looking at growth solutions. It is our position that the economies of Europe will exhibit slow or no growth over the next eighteen months, but the Euro will remain an international currency....with or without Greece.

What will happen if Congress does not move to alleviate the “fiscal cliff”?

At the end of this year a number of tax laws impacting both income tax and taxes on investment are due to expire. Never in our collective investment experiences have we ever seen a situation (over)

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where so many tax laws expire at the same time. Economists have projected that spending cuts and tax increases scheduled to take effect at year end could have as much as a 4% negative impact on GDP, which would put the US into a recession! No matter what your political persuasion, it would seem that this outcome would be unacceptable. It is our position that a solution will be enacted before year end, although it may not be until after the election.

What is the Buena Vista investment strategy with all of the global uncertainty?

We continue to expect modest growth here in the US and if we get a resolution to some of the issues in Washington, we could see a pleasant surprise on the upside. With respect to China we reduced exposure in the 4th quarter 2011. In the second quarter of 2012 we reduced exposure to European stocks, in favor of a heavier weighting to US equities. We continue to believe that Asia and emerging markets provide good investment opportunities. Asian and most emerging market countries have good balance sheets and are likely to provide good solid returns on a long-term basis.

As indicated we did increase our allocation to US equities in the 2nd quarter as we see some reasons for optimism. Homebuilding is very close or has already bottomed. The mortgage mess continues to improve. The auto industry has recovered to more normal levels of production. The oil industry, with their new drilling techniques, could be a strong catalyst to future economic growth. Rising labor costs in China has caused some manufacturers to move back to the US. All of this could lead to a strong market environment at some point in the future, especially if we can back away from the “fiscal cliff” in a reasonable manner.

Where do the Buena Vista market indicators now stand?

Currently, all three of our market indicators are positive although they have all come down off of the highs we saw in the 4th quarter of 2011. The Leuthold Major Trend Index is a leading indicator and as such, should be the first to turn neutral and/or negative if market conditions warrant. As this bull market is now over three years old, it is our intention to pay close attention to the indicators and raise cash in the portfolios if and when we see deterioration in the indicators.

BUENA VISTA INVESTMENT MANAGEMENT LLC **LONG-TERM MARKET INDICATORS**

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|---|-----------------------------------|
| Buena Vista Conservative Buy/Sell Discipline: | Bullish (turned positive 1-2012) |
| Leuthold Major Trend Index | Buy (turned positive 12-2011) |
| InvesTech Negative Leadership Composite: | Positive (turned positive 2-2012) |
| S&P 500 Stock Index: | 1,362 (8.31% thru 6-30-12) |
| Dow Jones Total Market Index: | 14,168 (8.38% thru 6-30-12) |

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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