



Views From The Heartland

Investment Perspective of Buena Vista Investment Management

Volume 12 Issue 2
June 2014

DOES THIS “BULL” MARKET STILL HAVE LEGS? 63 Months and Counting

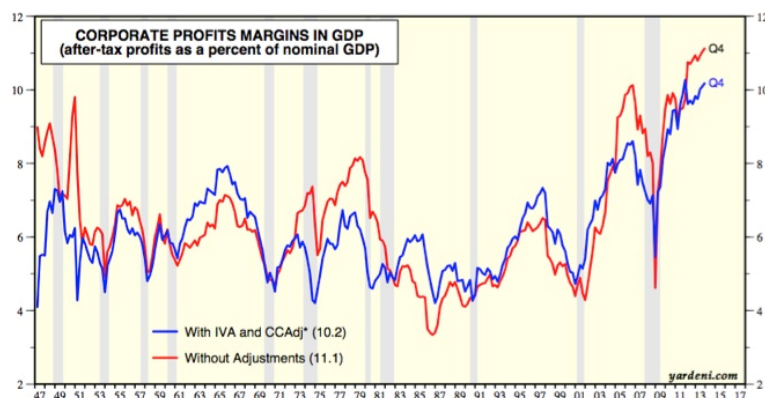
The end of June marked the 63rd month of this “bull” market, making this the fourth longest “bull” on record. Since its inception in March 2009, this bull market has pushed the S&P 500 stock index to a gain of 190% and the Nasdaq index up a whopping 245%. In addition to the longevity of this “bull” market, we continue to be amazed at its ongoing strength. There has not been a 10% retracement in the S&P 500 since August 2011. The S&P 500 and Nasdaq indices have not violated their 200 day moving averages since 2012. Volatility is the lowest in over seven years and this bull just keeps rolling along.

If the bear markets of 2000-02 and 2007-09 have taught us anything, it is that the good times don’t last forever. Now, after a period of extreme bullishness many prominent investment managers are becoming or have become bearish. The question is does anything need to be done to alter our current investment strategy?

The simple answer is no, as our market indicators are all still positive and it is our indicators that will determine the allocation to money market investments. While we wait for a change in status, we remain cautious. But, as our friends at InvestTech Research recently said “we are not bearish – just uncomfortable”. So, even though our indicators are in bullish mode we thought it would be useful to address some of the “bearish” viewpoints.

Will the end of Quantitative Easing (QE) mean the end of the bull market? Not necessarily. Record low interest rates for the last five years have been one of the major catalysts for this market advance. QE1, 2, and 3 motivated people to find better returns than they were getting in money markets, CDs or bonds. With the Federal Reserve winding down the QE program, most pundits have been calling for increases in rates.

However, the Federal Reserve which controls short term rates is on record that they are in no hurry to raise rates. In fact, they have projected short term rates to hold at current levels until later in 2015. It is our position this will force investors to continue to look for investment options that generate yield and better returns than fixed income. Also, if rates do begin to rise it will occur only if the economy is recovering.



The intensity by which interest rates rise will be a key factor in determining the future direction of the stock market.

Will corporate profit growth begin to slow? One key reason for the longevity of this bull market has been corporate profits, which have been driven over the last few years by record high operating margins, as evidenced in the chart to the left. The questions for investors now is whether or not margins stay high or begin

to erode and thus pressure profits. (OVER)

DOES THIS BULL MARKET STILL HAVE LEGS AFTER 63 MONTHS (continued)

Record high margins have come primarily from lower interest rates, stable labor markets and international expansion. There is no question that lower rates have allowed corporations to refinance and to extend maturities. Therefore, in most cases any rise in rates will not have an immediate effect on narrowing profit margins. On the labor front, the market for highly skilled workers is currently tight. Thus, potential for wage increases, which would then decrease operating margins, is a very real possibility. International expansion should continue, and we do not see the possibility of a change in the corporate tax structure until after the 2016 election cycle. Looking forward, it is our position that margins will begin to gradually decline, as wage pressures build. But, this gradual decline should not be enough to affect this “bull” market.

Will instability in the Middle East derail this bull market? Energy and stock prices have always been intertwined, as the past is filled with market pullbacks caused by spikes in energy prices. But, today we have a new dynamic; the U.S. energy renaissance. Who would have thought that with the Middle East in disarray, as Syria, Egypt, Libya and Iraq all are in the middle of chaos, that oil prices would have stayed relatively stable? According to the U.S. Energy Information Administration, U.S. energy production satisfied 84% of domestic demand in 2013, up from a historic low of 69% in 2005. In the same timeframe, U.S. energy use per capita fell about 10%. Today, the U.S. is not as reliant on Mideast oil as in the past. With U.S. oil and gas production improving, the Middle East makes us uncomfortable instead of downright scared.

Is the stock market really over valued? In our opinion the answer is not quite. The current forward Price Earnings ratio (P/E) on the S&P 500 stock index is 15 and the trailing P/E is 17, which are both in line with longer-term historic averages. However, they also are significantly less than the bubble period of the late 1990s, when P/Es were an astounding 25. In our opinion, the current level of interest rates is the main reason that investors support a premium market multiple. The question for investors is simple; would you prefer a 3.5% dividend or would you consider investing for 10 years in a U.S. Treasury paying you 2.5%?

So, while we remain uncomfortable with some aspects of the market, Buena Vista continues to feel that we are in a bull market. Although it would come as no surprise to see a healthy market pullback, based on our present circumstance, we would view that event as an opportunity to buy. However, we are on high alert for any dramatic changes in the areas we have noted or to our three market indicators.

For additional supporting data on this newsletter please see the “communications” section of the Buena Vista Investment Management website

BUENA VISTA INVESTMENT MANAGEMENT LLC LONG-TERM MARKET INDICATORS

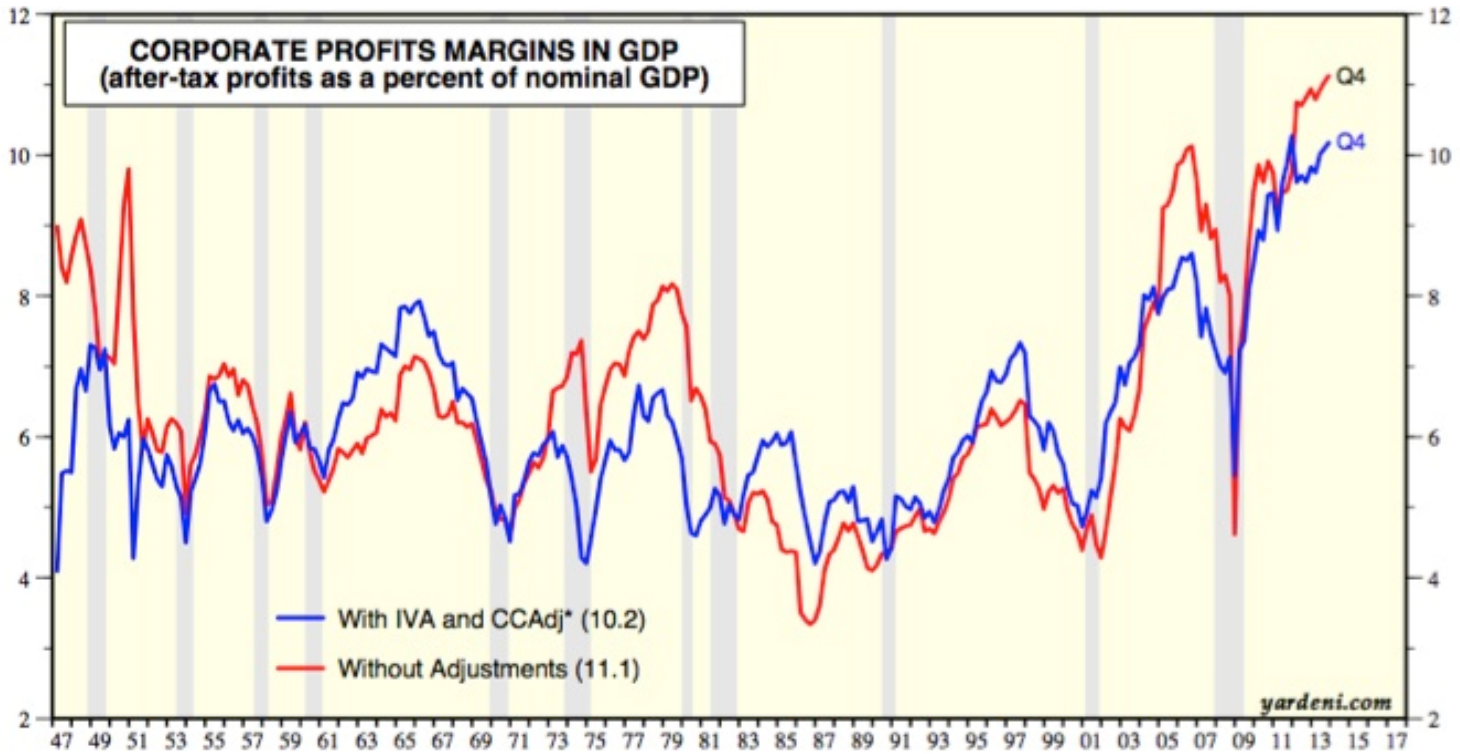
Buena Vista Conservative Buy/Sell Discipline:	Bullish (turned positive 1-2012)
Leuthold Major Trend Index:	Bullish (turned positive in 7-2013)
InvesTech Negative Leadership Composite:	Bullish (turned positive 11-2013)
S&P 500 Stock Index:	1,960.23 (6.05% thru 06-30-14)
Dow Jones Total Market Index:	20,569.65 (5.95% thru 06-30-14)

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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SUPPLEMENTAL DATA FOR
BUENA VISTA INVESTMENT MANAGEMENT JUNE 2014 NEWSLETTER

Will corporate profit growth begin to slow?



MARKET
INSIGHTS

Corporate Profits and Leverage

Equities

S&P 500 Earnings Per Share
Operating basis, quarterly

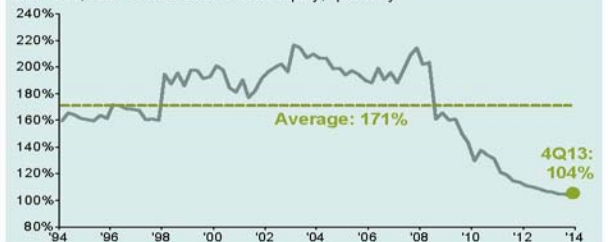


Profit Margins



Total Leverage

S&P 500, ratio of total debt to total equity, quarterly



Source: Standard & Poor's, Compustat, J.P. Morgan Asset Management.
EPS levels are based on operating earnings per share. *Most recently available data is 3Q13 as 4Q13 are Standard & Poor's preliminary estimates.
Past performance is not indicative of future returns.

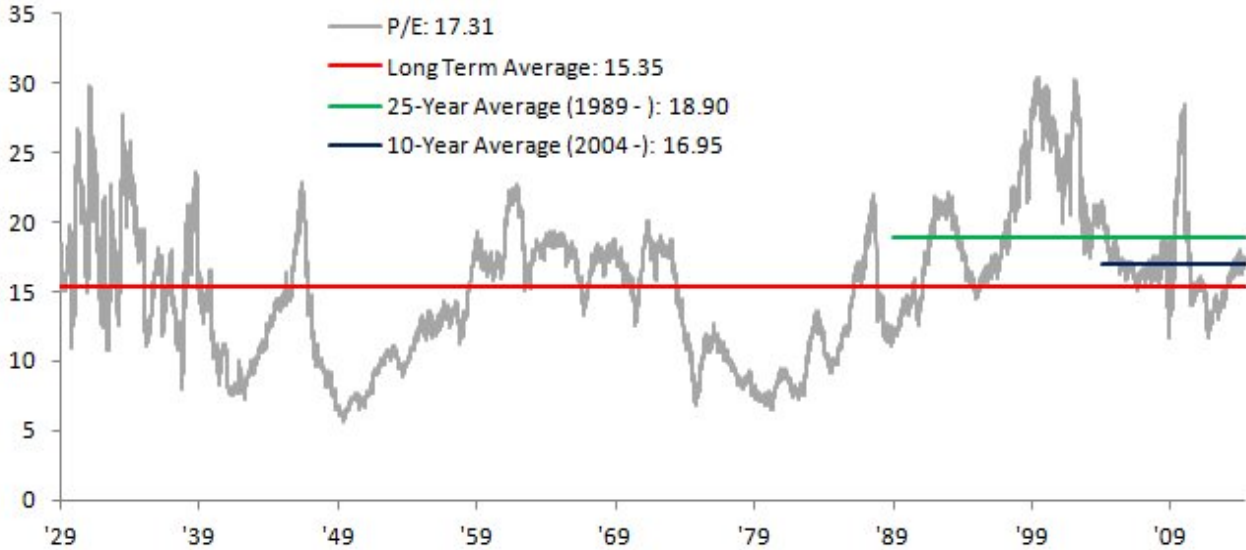
Guide to the Markets – U.S.

Data are as of 3/31/14.

SUPPLEMENTAL DATA FOR BUENA VISTA INVESTMENT MANAGEMENT JUNE 2014 NEWSLETTER

Is the stock market really over valued?

S&P 500 Trailing P/E Ratio: 1929 - 2014



MARKET INSIGHTS

Stock Valuation Measures: S&P 500 Index

Equities

S&P 500 Index: Valuation Measures

Valuation Measure	Description	Latest*	1-year ago	3-year avg.	5-year avg.	10-year avg.	15-year avg.
P/E	Price to Earnings	15.2x	13.7x	13.1x	13.2x	13.8x	16.0x
P/B	Price to Book	2.8	2.3	2.3	2.2	2.4	2.9
P/CF	Price to Cash Flow	10.6	9.4	9.0	8.8	9.5	10.7
P/S	Price to Sales	1.6	1.4	1.3	1.2	1.3	1.5
PEG	Price/Earnings to Growth	1.7	1.5	1.3	1.3	1.7	1.6
Div. Yield	Dividend Yield	2.1%	2.2%	2.2%	2.2%	2.1%	1.9%

Historical Averages

S&P 500 Shiller Cyclically Adjusted P/E

Adjusted using trailing 10-yr. avg. inflation adjusted earnings



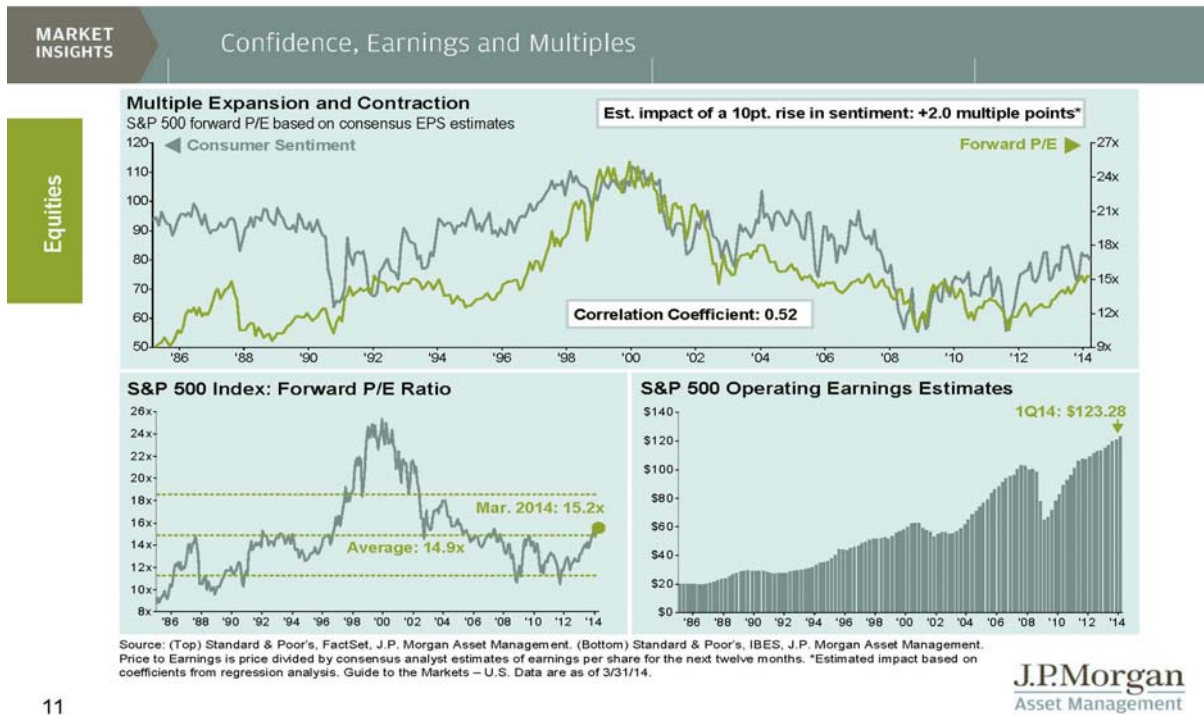
S&P 500 Earnings Yield vs. Baa Bond Yield



Source: (Top) Standard & Poor's, FactSet, Robert Shiller Data, J.P. Morgan Asset Management.
 Price to Earnings is price divided by consensus analyst estimates of earnings per share for the next 12 months. Price to Book is price divided by book value per share. Data post-1992 include intangibles and are provided by Standard & Poor's. Price to Cash Flow is price divided by consensus analyst estimates of cash flow per share for the next 12 months. Price to Sales is calculated as price divided by consensus analyst estimates of sales per share for the next 12 months. PEG Ratio is calculated as NTM P/E divided by NTM earnings growth. Dividend Yield is calculated as consensus analyst estimates of dividends for the next 12 months divided by price. All consensus analyst estimates are provided by FactSet. (Bottom left) Cyclically adjusted P/E uses as reported earnings throughout. *Latest reflects data as of 3/31/2014.
 (Bottom right) Standard & Poor's, IBES, Moody's, FactSet, J.P. Morgan Asset Management.
 Guide to the Markets – U.S.
 Data are as of 3/31/14.

J.P.Morgan
 Asset Management

SUPPLEMENTAL DATA FOR BUENA VISTA INVESTMENT MANAGEMENT JUNE 2014 NEWSLETTER



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Will the end of QE mean the end of the bull market?



Buena Vista Investment Management, LLC

Creative Investment Solutions

Disclosures

The strategic investment tools listed below are used by Buena Vista Investment Management to assist in its investment process. The tools are primarily used in the formulation of asset allocation decisions relating to the allocation between equity investments and risk free money market investments. The tools are focused on intermediate to long-term market trends and do not forecast short-term movements. Do not rely on these tools to make investment decisions.

July 7, 2014

Leuthold Major Trend Index	1.13	Positive
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The index status is considered to be positive, neutral or negative based on its underlying components. A reading above 1.05 is considered positive, between 0.95 and 1.05 is considered neutral and a reading below 0.95 is negative. The Leuthold Major Trend Index is considered by Buena Vista Investment Management to be a leading indicator.

Investech Negative Leadership Composite	Selling Vacuum +19	Bearish Distribution 0
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The Composite has two components:

1) Selling Vacuum (Bullish) - A reading of +20 is considered very bullish and may signal the start of a new bull market. Readings of above zero signals an ongoing bullish stock environment; and 2) Distribution (Bearish) - A reading below zero is considered to be bearish. The Investech Negative Leadership Composite is considered by Buena Vista Investment Management to be a leading indicator.

Buena Vista Conservative Buy/Sell Discipline	Bullish	206 S&P POINTS / 10.41% to sell
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The Buena Vista Conservative Buy/Sell Discipline utilizes the 300 day moving average of the S&P 500 stock index as a trigger for long-term buy and sell decisions. The discipline is either Bullish or Bearish depending on the relationship of the moving average and the index. The Buena Vista Conservative Buy/Sell Discipline is considered by Buena Vista Investment Management to be a lagging indicator.

Buena Vista Investment Management, LLC

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HISTORIC DATA FOR STRATEGIC INVESTMENT TOOLS

DATE	LEUTHOLD MAJOR TREND INDEX	INVESTTECH NEGATIVE LEADERSHIP COMPOSITE	BUENA VISTA CONSERVATIVE BUY/SELL DISCIPLINE
July 7, 2014	1.13	+19/0	206 points / 10.4% to sell
June 27, 2014	1.11	+14/0	195 points / 9.9% to sell
June 20, 2014	1.13	+16/0	204 points / 10.9% to sell
June 13, 2014	1.15	+13/0	184 points / 9.5% to sell
June 6, 2014	1.16	+8/0	202 points / 10.4% to sell
May 30, 2104	1.15	+11/0	184 points / 9.6% to sell
May 23, 2014	1.10	+11/0	165 points / 8.7% to sell
May 16, 2014	1.12	+11/0	152 points / 8.1% to sell
May 9, 2014	1.16	+11/0	169 points / 8.9% to sell
May 2, 2014	1.16	+10/0	164 points / 8.7% to sell
April 25, 2014	1.19	+13/0	155 points / 8.3% to sell
April 18, 2014	1.17	+10/0	159 points / 8.5% to sell