



Views From The Heartland

Investment Perspective of Buena Vista Investment Management

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MARKET VOLATILITY DOMINATES INVESTMENT MARKETS Building Portfolios to Cope with Volatility

Volatility has certainly dominated the investment landscape in 2016. The first two months of this year saw double digit declines in almost all international equity markets as well as most United States market indexes. Almost as fast, markets around the world rebounded with the S&P 500 stock index coming very close to making new record highs. Then another bout of selling washed across global equity markets when the United Kingdom voted to leave the European Union.

It is easy to become frustrated and nervous about one's portfolio when you see this much fluctuation in the last 10 months. This newsletter seeks to give investors information on constructing a portfolio during these interesting times.

The Interest Rates Conundrum

Interest rates have always been a significant factor in designing financial portfolios. They have provided income and shelter from stock market decreases. If we look back to the year 2000, the 10 year US Treasury Note gave investors a solid 6.76% return. But since the great recession of 2008 interest rates have plummeted, pushing returns on the 10 year note to 1.5% and yields on certificates of deposit and money market funds to 1% or less.

The picture for investors looking for return with some stability gets even worse when you look at global government fixed income markets. The investment management firm BlackRock, reported in March 2016, 38% of all developed market government bonds were trading at negative rates. Yes, you read that correctly; negative rates! This means that investors are willing to pay an institution to hold his or her money, an astonishingly unprecedented reality.

With fixed income investments being such an important component to building an investment portfolio over the last 40 years and with interest rates now so low; what is an investor to do to generate return and also deal with or attempt to reduce portfolio volatility?

Portfolio Construction in a Low Interest Rate Environment

Investors do have a number of options available to them to generate real cash returns and reduce their exposure to market volatility. There are a number of asset classes that at this time provide higher returns than traditional fixed income investments. The following is a look at those investment options:

Income Stocks

The first and most straightforward answer on how to generate income in portfolio construction is to choose income stocks. According to Business Insider, dividends have comprised 41.8% of the return on the S&P 500 stock index from 1930-2012. The S&P returned 9.3% during that time frame. Currently, the dividends on many S&P 500 stocks yield more than the corporate bonds of the same companies.

In choosing what income producing stocks should be included, there are several factors that need to be taken into consideration such as: 1) the number of years of consecutive increases in the dividend amount; 2) the growth rate of dividend increases; and 3) the percentage of dividend payout when compared to free cash flow.

Companies that can increase their dividend annually, provide a good growth rate on its annual dividend and maintain a moderate payout ratio are all signals of a quality dividend paying company.

(OVER)

MARKET VOLATILITY DOMINATES INVESTMENT MARKETS (continued)

Often, the tendency is to look at the highest yielding companies to generate the most income. Sometimes that works. However, a high yield can be a reflection of a company whose stock price has dropped due to business conditions or declining profitability. In some cases a high yield may signal an impending cut in future dividends.

While income stocks will not protect against all market volatility, they should be less volatile and allow investors to remain patient during periods of uncertainty while they collect the quarterly dividend payments.

Corporate Bonds

Over the years corporate fixed income securities have been a source of income that is less directly tied to equity market volatility. These bonds are direct liabilities of the corporations, and as such bondholders have senior status in the case of bankruptcies when compared to stockholders. Bond maturities can vary from three months to 30 years. Historically, the coupon rates of corporate bonds have been higher than similar maturities of government bonds or certificates of deposit. The higher the company is rated, the smaller the differential is. The reverse is also true; the bonds of a lower rated company will have a bigger difference in coupons.

Both high quality and lower quality bonds should be an important part of building a portfolio in a low rate environment. Understanding the balance sheet of a corporation is crucial to the selection of any fixed income investment. It is also important to use them in a ladder approach to diversify interest rate risk.

REITs and MLPs

Two other investments that provide investors with income, are REITs (real estate investment trusts) and MLPs (master limited partnerships). Both are entities that distribute a great majority of their free cash flow. While these investments might not be right for all investors due to their unique tax characteristics, they are excellent investments when used in the right situation. Again, the characteristics previously mentioned when talking about the S&P 500 quality dividend companies are important in choosing the right REIT or MLP.

Preferred Stocks

Preferred stocks are another income investment that fits into a diversified portfolio. This hybrid investment has some characteristics of both bonds and stocks. Most preferred stocks pay a quarterly dividend that will remain constant for the duration of the investment. Recently, the coupon rates on newly issued preferred shares have ranged between 5% and 7%. In our current interest rate environment of “lower for longer” these investments can add an attractive income stream to a portfolio.

Conclusion

Volatility will remain a big part of the stock market. Money markets, government bonds and certificates of deposit are projected to generate low returns for the foreseeable future. We continue to believe that income producing securities should be an important component of portfolio construction, as they can help reduce portfolio volatility and improve potential long-term total returns.

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:	Positive (turned positive – 04/2016)
Leuthold Major Trend Index:	Neutral (turned neutral – 07/2016)
InvesTech Negative Leadership Composite:	Bullish (turned neutral – 04/2016)
S&P 500 Stock Index:	2,098.86 (2.69% thru 06-30-16)
MSCI World Market Index:	1,653.22 (-0.58% thru 06-30-16)

Important Disclosure – The performance numbers contained on this page are provided for informational purposes only. Contact Buena Vista Investment Management LLC for more specific information concerning performance and market data. Do not rely on this information to make investments.

\$UST10Y 10-Year US Treasury Yield (EOD) INDX

5-Jul-2016

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Open 1.37 High 1.37 Low 1.37 Close 1.37 Chg -0.09 (-6.16%)

— \$UST10Y (Daily) 1.37 (5 Jul)



BUSINESS INSIDER

Dividends Were Responsible For 42% Of Stock Market Returns Since 1930



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JAN. 10, 2013, 8:56 AM

Dividend stocks aren't just for old people and conservative investors.

They're for anyone interested in making money.

Breaking down the returns of the S&P 500 by decade, Morgan Stanley's Adam Parker shows that dividends play a critical role in total returns:

S&P 500 Total Return: Price and Dividend Contribution

	Total Return	Price Appreciation	Income Return	As a Share of Total Return	
				Price App.	Div. Income
1930's	0.1%	(5.3%)	5.7%	na	na
1940's	8.9%	3.0%	5.7%	33.6%	64.5%
1950's	18.9%	13.6%	4.7%	72.0%	24.7%
1960's	7.7%	4.4%	3.1%	57.2%	41.0%
1970's	5.8%	1.6%	4.1%	27.8%	71.1%
1980's	17.2%	12.6%	4.1%	73.2%	23.8%
1990's	18.0%	15.3%	2.3%	85.1%	12.9%
2000's	(0.9%)	(2.7%)	1.8%	na	na
2012	16.0%	13.4%	2.3%	83.8%	14.3%
2003-2012	7.1%	4.9%	2.0%	69.7%	28.9%
1930-2012	9.3%	5.2%	3.9%	56.0%	41.8%

Morgan Stanley

Buena Vista Investment Management, LLC

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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 1, 2016

Leuthold Major Trend Index	Neutral	1.02 (as of June 24th)
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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	Bullish	Selling Vacuum +28	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	63 S&P POINTS / 2.99% 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.

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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 1, 2016			+28/0 Bullish	63 points / 2.99% To Sell
June 24, 2016	1.02	Neutral	+33/0 Bullish	0 points / 0.00% To Sell
June 17, 2016	1.14	Bullish	+35/0 Bullish	32 points / 1.54% To Sell
June 10, 2016	1.21	Bullish	+37/0 Bullish	51 points / 2.43% To Sell
June 3, 2016	1.24	Bullish	+34/0 Bullish	7 points / 0.34% To Sell
May 27, 2016	1.22	Bullish	+31/0 Bullish	60 points / 2.85% To Sell
May 20, 2016	1.13	Bullish	+32/0 Bullish	7 points / 0.34% To Sell
May 13, 2016	1.16	Bullish	+35/0 Bullish	7 points / 0.34% To Sell
May 6, 2016	1.12	Bullish	+37/0 Bullish	17 points / 0.82% To Sell
April 29, 2016	1.16	Bullish	+38/0 Bullish	24 points / 1.2% To Sell
April 22, 2016	1.11	Bullish	+31/-14 Neutral	50 points / 2.4% To Sell
April 15, 2016	1.10	Bullish	+23/-30 Neutral	10 points / 0.3% To Sell
April 8, 2016	1.03	Neutral	+19/-48 Neutral	10 points / 0.9% To Sell
April 1, 2016	1.04	Neutral	+19/-68 Neutral	0 points / 0% To Sell
March 25, 2016	1.01	Neutral	+15/-87 Neutral	0 points / 0% To Sell
March 18, 2016	0.97	Neutral	+11/-100 Negative	0 points / 0% To Sell
March 11, 2016	0.97	Neutral	+8/-100 Negative	0 points / 0% To Sell
March 4, 2016	0.90	Negative	+2/-100 Negative	0 points / 0% To Sell
February 26, 2016	0.86	Negative	+2/-100 Negative	0 points / 0% To Sell
February 19, 2016	0.87	Negative	+2/-100 Negative	0 points / 0% To Sell
February 12, 2016	0.85	Negative	+2/-100 Negative	0 points / 0% To Sell
February 5, 2016	0.83	Negative	+2/-100 Negative	0 points / 0% To Sell
January 29, 2016	0.80	Negative	+2/-100 Negative	0 points / 0% To Sell
January 22, 2016	0.80	Negative	+2/-100 Negative	0 points / 0% To Sell
January 15, 2016	0.73	Negative	+2/-100 Negative	0 points / 0% To Sell
January 8, 2016	0.79	Negative	+2/-100 Negative	0 points / 0% To Sell