



Views From The Heartland

Investment Perspective of Buena Vista Investment Management

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THE PAUSE THAT REFRESHES

As we write this current issue of “Views from the Heartland”, the S&P 500 stock index sits at 1108, 6.5% off of its March 2004 high of 1163. The NASDAQ stock index is currently at 1896, off 12% from its mid January high of 2153. We are now experiencing the first correction of this new “bull” market, which began last March. In fact, by the time you receive this newsletter, the correction may have run its course. ***It is important to remember that market corrections are a normal part of market activity.***

There is no doubt that investor anxiety levels about this market decline seem to be a bit higher than normal. But it would seem that this is a natural reaction, after recently experiencing the worst stock market decline since the depression. It is also natural to question whether the recent declines will continue, after three long years of market declines. We think not! ***It is our position the current market decline is another sign of a healthy market, not the beginning of a new ‘bear’ market.*** It remains our position that the stock market will trend higher as we move through the summer, with more market volatility on the horizon due to the upcoming Presidential election.

POLITICS AND THE STOCK MARKET



“Are you ready to rumble”.... It’s another Presidential election year and like the last election in 2000, this one promises to be very interesting with the country seemingly split down the middle. Republican vs. Democrat...Liberal vs. Conservative...New Taxes vs. Fewer Taxes...For The Good Of All vs. Individual Rights. Lots for the market to be thinking about and lots to be concerned about.

Based on our research, there is no statistical advantage for investors to have either a Republican President or a Democratic President. The stock market goes up and the stock market goes down, under the leadership of both parties.



There may be no statistical correlation to say that one party is better for your investments than the other but there is one statistic that is of importance to us as investors. ***Since 1926, in each and every case where an incumbent President is voted out of office, the stock market posted negative rates of return at some point over the next six months.*** What this is telling us is that the stock market prefers continuity in public policy, whatever the policy, as compared to the uncertainty of a new administration. The old adage of “the markets prefer the devil they know, rather than the devil they don’t know” is

a very true statement in this upcoming election season.

THE MYTH CONCERNING INTEREST RATES

For those of you who watch the financial news on CNBC or CNN, I am sure that you have seen market commentators discuss the potential effect that rising interest rates will have on your stock investments. In most cases, these market gurus discuss how rising rates will hurt stock investments. The standard refrain is that as rates rise, investors will move funds back into safer fixed income investments. In reality, this could not be farther from the truth. Let us explain.

Our partners at the Leuthold Group recently did a study on this subject and what they found was both interesting and very informative. ***They reviewed interest rate increases going back to 1955 and what they found was that stock prices actually move up, not down when interest rates begin to increase.*** The logic is simple, increasing interest rates mean an improving economy and better corporate earnings. The following table provided by the Leuthold Group shows their results for the nine periods of rising interest rates that they have identified since 1955.

	<u>Period</u>	<u>T-Bond Yield</u>		<u>Increase</u>
1	April 25, 1958 January 29, 1960	3.07% 4.36%	Stock Market Up: Long Bond Rates Up:	32.1% 129 Basis Points
2	October 19, 1962 January 14, 1966	3.38% 4.42%	Stock Market Up: Long Bond Rates Up:	75.6% 54 Basis Points
3	January 20, 1967 January 29, 1968	4.37% 5.44%	Stock Market Up: Long Bond Rates Up:	24.9% 107 Basis Points
4	November 5, 1971 January 5, 1973	5.33% 6.48%	Stock Market Up: Long Bond Rates Up:	26.8% 115 Basis Points
5	February 24, 1978 November 21, 1980	8.12% 12.13%	Stock Market Up: Long Bond Rates Up:	60.1% 401 Basis Points
6	November 5, 1982 July 22, 1983	10.24% 11.39%	Stock Market Up: Long Bond Rates Up:	19.1% 115 Basis Points
7	April 18, 1986 August 21, 1987	7.35% 9.02%	Stock Market Up: Long Bond Rates Up:	38.9% 167 Basis Points
8	January 19, 1996 June 14, 1996	5.91% 7.25%	Stock Market Up: Long Bond Rates Up:	8.0% 134 Basis Points
9	October 2, 1998 January 21, 2000	5.05% 6.90%	Stock Market Up: Long Bond Rates Up:	43.2% 185 Basis Points

FINAL COMMENTS: *We just may be in the beginning of the first synchronized global economic recovery in over a decade, a great environment for stock investors.* (More on this subject in our next newsletter) Offsetting our current positive economic environment is the fact that this is an election year and we have a sharply divided electorate in the US. Expect more market volatility as this election year progresses. We remain “bullish” on stocks and “bearish” on bonds.