



Views From The Heartland

Investment Perspective of Buena Vista Investment Management

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INTRODUCING THE DEFENSIVE TEAM

Preparing For A Stock Market Correction

By John Moffat Partner

The first quarter of 2006 proved to be very rewarding for investors with the S&P 500 Stock Index posting a return of 3.7%, its best showing for a first quarter, since 1999. What even makes this stellar performance even more noteworthy is the fact that all major market indices powered higher while the Fed continued to hike short-term interest rates and the price of a barrel of oil held firm in the area of \$60.

In the last issue of this publication, we discussed the fact that our 2006 target for the S&P 500 was a range of 1350-1400. After the stellar first quarter move, we are less than 4% from the lower end of our target range and approximately 8% away from the upper end of our target. Because of the market's proximity to our 2006 target (S&P 500 index currently at 1300), it is now time to be thinking about playing defense and protecting our hard earned gains of the last 3 years.

Since 2003, our offensive team has been on the field and performed admirably, racking up annual equity gains of approximately 5% greater than the S&P 500 index. Now it is time for us to introduce the investment alternatives, which we will be using to protect and grow your principal in any upcoming market correction. We think it is now time to introduce you to our defensive team.

So lets have a little fun... pretend you're at Lambeau Field and it is the opening game of the season and the defensive team is about to be introduced..... Ladies and gentlemen let's hear it for our two starting defensive ends; two of the best all weather asset allocation funds - Oakmark Equity Income Fund and Leuthold Core Investment Fund. Starting at nose tackle, give it up for one of the best bear market funds; Rydex Ursa. At middle linebacker, anchoring our defense, please welcome Schwab Money Market Fund. At cornerback we have the Rydex Juno Fund providing stellar defense against rising interest rates and finally at free safety; the always reliable JP Morgan and Janus mid capitalization mutual funds.



Obviously, this is all in good fun but we are very serious about protecting and growing our clients' principal in both up and down markets. With that as our backdrop, we thought it appropriate to discuss the varied investment vehicles which will help us achieve those all important goals.

We consider the **Oakmark Equity Income** fund and the **Leuthold Core Investment** fund as the core of our defense. Both funds are considered asset allocation funds, which means that the funds can move between stocks, bonds and cash investments at their discretion. Over the last ten years Oakmark has posted only one down year while Leuthold has had two down years. During the worst of the 2000-2002 bear market, Oakmark declined 2% and Leuthold declined 10% while the S&P 500 dropped over 22%.

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Of the two funds, Oakmark is clearly the more conservative of the two, but both funds maintain risk profiles that are substantially less than the S&P 500 index. For example, the Beta (measure of volatility as compared to S&P 500) on Oakmark is 60% less than the S&P and Leuthold is 15% less. Finally, Leuthold is unique in that it can short stocks (a way to profit from declining stock prices) which is a much different approach than a long only (buy stocks) fund.

It has been many years since we have spoken about **money market investments** being a valuable part of an investment portfolio but that is now changing. With the recent yields on money market funds moving back up to 4% and the potential for higher yields on the horizon, money market investments can once again join our defensive team. A money market investment may not provide the highest yield but your principal is secure and in any market decline this non-descript asset can be a real valuable team member.

Rydex Ursa and **Rydex Juno** are two mutual funds that take a totally different approach to investing. Their strategy is to invest in a manner that allows the fund to produce returns that are inversely correlated to their respective benchmarks. For example, the Ursa fund is benchmarked to the S&P 500 stock index. If the S&P index produces a return of -4%, then this fund is invested to produce a return of approximately +4%. The same is true for the Juno fund only this is benchmarked to the US Treasury Long Bond. This means it will produce positive returns in a period of rising interest rates where a traditional bond fund or fixed income investments would likely produce negative returns. Both of the Rydex funds are very specialized investment alternatives which will be used on a limited basis in the Buena Vista portfolios to try and profit from a market decline.

Finally, **JP Morgan** and **Janus Mid-Capitalization funds** have proven their worth in both good markets and bad. Between the two funds they have only had one negative year of performance between them (since 1998). We have spoken at length in previous issues of this publication about the merits of investing in mid-capitalization mutual funds, so we won't get into all the details here. But it is our position that this is one of the most underappreciated and under owned areas of the investment markets, which may be one of the primary reasons for its excellent performance in down markets.

After three and one half great years of investment returns it is now time to begin to think defense!

LONG-TERM MARKET INDICATORS

Buena Vista Conservative Buy/Sell Discipline:	Buy (solidly bullish)
Leuthold Major Trend Index:	Neutral (moved back to neutral in February 2006)
Coppock Guide:	Buy (a good buy signal but less reliable on the sell side)
S&P 500 Stock Index:	1294 (+3.7% thru 3-31-06)
Wilshire 5000:	13,155 (+5.0% thru 3-31-06)

DIVERSIFIED MUTUAL FUND PROGRAM

Income and Growth Strategy	3.4%	Conservative Equity Strategy	5.3%
Total Return Strategy	5.7%	Absolute Return Strategy	4.1%

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 based on investments that have been in place since 1-1-04. 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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