



Views From The Heartland

Investment Perspective of Buena Vista Investment Management

Volume 8 Issue 1
March 2010

CORPORATE AMERICA IS ALIVE AND WELL

Maintaining Bullish Stance As Corporate Earnings Forecasted To Be Strong

By John Moffat and Joel Sullivan, Partners

The Dow Jones Industrial Average has risen 66% and the S&P 500 Index has soared 74% since their lows in March of 2009. The question for many investors now is; **where do we go from here?** We remain optimistic about equity markets in the US and worldwide and our 2010 target of 1250 to 1300 on the S&P 500 index remains in place. The foremost reason for our continued bullishness, even after a 75% run in the S&P 500 index, is that “Corporate America” is alive and well!

No where is that more evident than in **corporate earnings**. Earnings in the 4th quarter of 2009 were up approximately 30 % over the same quarter in 2008. This followed a 10% increase in the 3rd quarter. The Leuthold Group expects 2010 S&P500 earnings to rise another 27% year over year.

In addition, to strong earnings momentum, **S&P 500 corporations had a record \$831 billion of cash** on their balance sheets at year end 2009. This represents 11.4% of company assets, outside of the financial industry, the highest level in 50 years, according to Tokyo based Mizuho Financial Group.

With record cash amounts on **balance sheets** of our largest corporations, we are anticipating that we will see additional announcements of companies using their cash and future earnings to raise dividends or buy back their stock. Dividends for S&P 500 companies fell 21% in 2009, the worst decline since 1955, according to LPL Financial Research, but so far this year 49 S&P 500 companies have raised or initiated dividends. Now the markets are waiting for bellwether companies, JP Morgan and General Electric to announce dividend increases. It is also logical to expect corporations to plow some of that cash back into their businesses in the form of capital expenditures and finally, some much anticipated hiring, which will further help fuel the economic recovery.

Another reason for optimism is the **current valuations** for equity investments. Even with the rebound in stock prices, we remain of the opinion that valuations are still not excessive. The Leuthold Group is anticipating that S&P 500 operating earnings will hit \$80 in 2010. If we do the math, a price (P) of 1300 on the S&P 500 index and \$80 earnings (E) gives us a P/E ratio of 17X, which we would consider in line with historic normal valuations. According to Leuthold, this market would have to rise another 20% before it would be considered overvalued.

The one sector of corporate America that suffered the most in 2008 was **the financial sector**, specifically the banks. At the height of the financial panic, it wasn't profitability that we were concerned with but rather survivability that was important. The recovery in the banking system has been swift and dramatic, as capital positions have improved, stock prices are up and TARP has been repaid by our major banks. An amazing rebound for a sector that was on life support only 18 months ago.

BUENA VISTA INVESTMENT MANAGEMENT LLC

CORPORATE AMERICA IS ALIVE AND WELL (continued)

The final piece to a healthy corporate America is **the consumer**. Without consumer spending we don't have corporate profitability. In recent months, those that doubt this stock rally, continue to express the opinion that the consumer is tapped out. To quote a variation of Mark Twain "the reports of their death have been greatly exaggerated". The US consumer may have been battered by the housing slump but discretionary spending is now rebounding smartly. One example of consumer resilience is seen in Best Buy's most recent quarterly earnings announcement. We would argue that the majority of purchases at Best Buy are highly discretionary. Do you have to buy that flat screen or DVD player this week? Yet consumers spent \$16.5 billion at these stores in the first 3 months of 2010, up 13% from a year ago.

As investors we are bombarded with monthly statistical data that sometimes presents us with contradictory information. We prefer to **focus on the trend of the numbers** that are important to us. Right now one of the most important numbers for equity investors is corporate earnings and the trend there is very favorable. So with earnings rising, record cash on balance sheets and a financial crisis that is fading into memory we remain fully invested and bullish. Stay tuned.

DIVERSIFIED MUTUAL FUND PROGRAM

We are announcing some changes to our diversified mutual fund strategies.

In the Total Return Strategy we are replacing Alpine International Real Estate fund (EGLRX) with Ivy Asset Strategy fund. The Ivy Asset Strategy fund is considered a specialty fund because of its ability to invest in all asset classes. It will invest here in the US as well as internationally. It can invest in bonds, stocks, real estate or commodities.

In the Income and Growth Strategy we have removed Cambier Opportunity fund and the Calvert Income fund. These investments are being replaced with American Century Equity Income fund and JP Morgan Core Bond fund. The Conservative Equity Strategy is also adding American Century Equity Income fund as a replacement for Cambier Opportunity fund. These new additions should reduce volatility in the two portfolio strategies while allowing for continued quality investment returns.

LONG-TERM MARKET INDICATORS

Buena Vista Conservative Buy/Sell Discipline:	Positive (issued a "buy" signal in April 2009)
Leuthold Major Trend Index:	Positive (moved to "bullish" in September 2008)
InvesTech Negative Leadership Composite:	Positive (issued a "buy" signal in March 2009)
S&P 500 Stock Index:	1,169.43 (4.87% thru 03-31-10)
Wilshire 5000 Stock Index:	12,161.00 (5.77% thru 03-31-10)

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.

BUENA VISTA INVESTMENT MANAGEMENT LLC
241 3rd STREET SOUTH WISCONSIN RAPIDS, WI 54494
715-422-0700 buenavista@buenavistainv.com