



Views From The Heartland

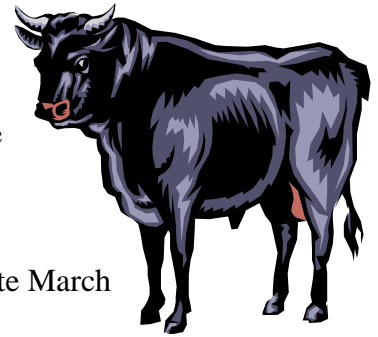
Investment Perspective of Buena Vista Investment Management

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Stock Market Bounces Back After Correction

Global Unrest and Earthquakes Can't Keep A Good Bull Down

The first quarter of 2011 provided investors with a wild ride as good economic news was followed by global political unrest, earthquakes and a near nuclear meltdown. The US equity market had been on a tear from September, 2010 through February, 2011, rising 28% over that period. Then we had unrest in the Middle East, the earthquake, tsunami and nuclear problems in Japan and these events caused the 7% selloff we saw in March.



To put these numbers into perspective, the S&P 500 stock index bottomed in late March 2009 at 667. Since that time, stock prices have risen 80% with only one major correction (17%) along the way. This solid gain was accomplished during a period of great uncertainty and is a testament to the strength of this “bull” market. While we remain “bullish”, in this issue of “Views From The Heartland” we will discuss some of the headwinds facing investors as we move through the balance of 2011.

We began this year with political upheaval in Egypt, which then spread to other parts of the Middle East. The subsequent resignation of Egypt's President Mubarak started a chain of events that is being repeated in other countries in this oil rich region. Now with the United Nations intervening in Libya, this may encourage others to rise up and seek additional freedoms from oppression. These events caused traders to then push the price of oil to over \$100/bbl and this uncertainty will most likely keep oil prices elevated. Merrill Lynch is predicting oil prices of \$120/bbl. and potentially up to \$150/bbl. While Goldman Sachs is predicting that higher oil prices could shave up to \$5.00 off their S&P 500 earnings estimates for 2012.

So while the rise in oil is unsettling, our investment portfolio will benefit, as we have an allocation to energy and natural resources which should perform well in this environment.

The catalyst for our March correction was the earthquake, tsunami and nuclear problems occurring in Japan. In addition to the human toll these events created, they also added greatly to uncertainty about the future, which is never a good thing on Wall Street.

The “bear” interpretation of the Japanese events is that there will be supply chain interruptions, which could lead to price increases. TVs, cars, smartphones and tablets are only some of the products that most likely will experience production issues. Companies in the US could scale back operations which would reduce the incomes of workers. Then there is the nuclear issue and the potential moratorium on existing or new construction of these facilities, which could put further upward pressure on existing supplies of energy.

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Stock Market Bounces Back After Correction (CONTINUED)

The “bull” interpretation of these Middle East and Japanese events starts with energy. The “bulls” feel that the rise in oil prices is temporary and the run up in prices is caused by speculators and not supply and demand. They anticipate that prices will come down later this year as things settle down in the Middle East. With respect to Japan and consumer goods, the “bulls” feel that multi-national companies will shift production to other plants and global growth will be pushed out a few quarters. Finally, the “bulls” are saying that all the reconstruction in Japan will lead to better economic global growth and also increase the GDP in the world’s third largest economy.

As we move through the balance of 2011 the markets will also have to deal with data that indicates that interest rates and inflation have started to move upward. In past issues of this newsletter we have detailed our position that both interest rates and inflation are headed higher. The question for us is not if rates and inflation are going up... but when and by how much.

Interest rates will be impacted by the fact that the Federal Reserve is ending their QE2 repurchase program in June. China, which is a leading purchaser of United States debt, reduced their holdings in January by \$4.5 billion. Japan the second largest holder of US debt will need to repatriate funds to deal with rebuilding their own country. All of these factors may decrease the demand for US Treasuries at a time where the supply continues to grow. All these factors mean that markets will have to deal with the very real possibility of higher interest rates over the next 12-24 months.

So while there are a lot of things to worry about, the markets have somehow remained focused on the rising corporate earnings and growing global GDP. With that backdrop, US equity investors were treated to the first quarter return since 1998! So for now the “bulls” are in control and the as they say on Wall Street“the trend is our friend”.

BUENA VISTA INVESTMENT MANAGEMENT LLC **LONG-TERM MARKET INDICATORS**

Buena Vista Conservative Buy/Sell Discipline:	Buy (issued a “buy” signal in 9-2010)
Leuthold Major Trend Index	Positive (turned positive in 9-2010)
InvesTech Negative Leadership Composite:	Buy (remains a “buy” signal since May 2009)
S&P 500 Stock Index:	1,325.83 (5.42% thru 03-31-11)
Wilshire 5000:	14,036.43 (5.62% thru 03-31-11)

Buena Vista Current Investment Strategy – Our strategy remains the same as it was in December.....we are maintaining our fully invested position in both the Diversified Mutual Fund Program and Custom Investment Services Program. Our allocation to no risk money market investments remains within our normal range, with allocations currently between 3% and 5% for portfolio strategies. While we acknowledge that we are in the third year of this bull move and are concerned about the steady climb in oil and commodity prices, we remain “bullish”. Given the fact that this “bull” is getting a bit long in the tooth, we believe flexibility may be the key to solid returns in 2011.

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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