Buena Vista Investment Management, LLC
Creative Investment Solutions

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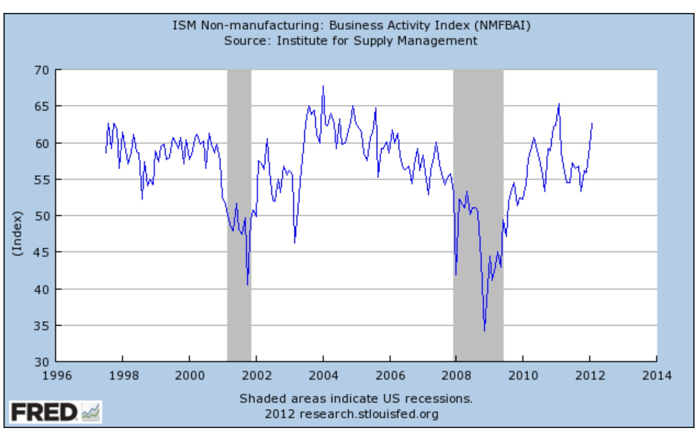
US Stock Market Of To A Great Start In 2012
Will The Rally Continue?

The S&P 500 turned in its best first quarterly performance since 1998, gaining 13%. This is on top of the 11% gain last quarter. Keep in mind, in our December newsletter; we forecast the S&P 500 climbing to between 1350 and 1450 in 2012. We are slightly over the middle of that range already. So, after climbing 22% over the last four months, without a single correction of even 5%, does this market continue to go higher or does it run out of steam?

In strong bull markets it is easy to get over confident or complacent. Our goal, in good markets and bad, is to step back and objectively evaluate where we are in the market cycle. We want to avoid getting caught up in excessive exuberance on the upside or extreme pessimism on the downside. One of the primary ways in which we do this is by relying on our market indicators. Currently, all three of our indicators are positive. The Leuthold Group developed the Major Trend Index over 30 years ago to guide investors on whether to be positive, neutral or negative on the stock market. Any reading above 1.05 is positive. The current reading for the Index is at 1.54, which is a very positive reading. The Buena Vista Conservative Buy/Sell Indicator is also solidly in bullish territory.

The third indicator we monitor closely is InvesTech's Negative Leadership Composite. This indicator gives a bullish signal when it confirms the absence of negative or downside leadership. The current reading is 45, which is extremely bullish. Historically, when the reading is at that level it has resulted in an average 6 month gain of +8.1%, and an average 12 month gain of 11.2% in the S&P 500 Index. We will continue to monitor this indicator to see if it continues to move higher, or has peaked. Any pullback in this indicator would give us cause for concern.

In addition to our indicators being strongly positive, there are a number of specific economic data points which are trending positive. We discussed the employment trends in detail in our last issue but since then, net jobs created have averaged 244,600 per month. Consumer confidence continues to improve as the employment picture brightens. The ISM Non-Manufacturing New Business survey, which gives us an indication as to how businesses feel about the future is at 61. According to InvesTech, this is the most positive reading for this survey since 2007.



The ISM Manufacturing Survey remains above 50 which indicates that sector of the economy is growing as well. Given this positive macroeconomic backdrop, it is extremely difficult to forecast the economy heading into a recession any time soon.

STOCK MARKET OFF TO A GREAT START IN 2012 (continued)

Having said all that, there are always issues to be concerned about that could derail this rosy outlook. One that comes to mind is the rising price of oil. The national average cost for a US gallon of gas is $3.90, according to AAA. And the forecast is for that to go higher as we enter the summer driving season. According to the US Energy Information Administration (EIA), the US consumes about 377 million gallons of gasoline per day. If gas prices go up 10 cents, that translates into an additional cost of about $1 billion per month. That means $1 billion each month people won't be spending on discretionary items…not a positive for the economy. To put this into perspective, the IMF estimates that each $10 increase in a barrel of oil shaves about 0.5% off our GDP.

A second item of concern is that the rise in commodity prices over the last couple of years could lead to peak profit margins being behind us. Additionally, the current environment makes it difficult for corporations to raise prices on finished products, thereby potentially putting downward pressure on profit margins. Any sign of shrinking margins could result in a market pullback.

Maybe the biggest concern on the horizon is the potential for a major across the board tax increase. The Bush tax credits are set to expire at the end of this year if Congress doesn't do something. This means the 10% bracket goes away and current marginal rates go up about 3% for virtually all income earners. The payroll tax is also set to expire which would reduce American's take home pay by $93 billion for 2013. These are only two of the tax increases which would occur, although there are a number of others, including dividend tax rates and estate tax rates.

So, can this market go higher? Based on our indicators and the current state of the economy we feel the answer is yes. Even though we have some concerns, we are of the opinion that this market is reasonably valued based on historic norms. Therefore, we believe this bull market has some room to run. However, as always, we will continue to keep a close eye on our indicators, looking for any early indication that this bull is running out of steam.

BUENA VISTA INVESTMENT MANAGEMENT LLC

LONG-TERM MARKET INDICATORS

Buena Vista Conservative Buy/Sell Discipline:	Bullish (turned positive 1-2012)
Leuthold Major Trend Index	Buy (turned positive 12-2011)
InvesTech Negative Leadership Composite:	Positive (turned positive 2-2012)
S&P 500 Stock Index:	1,408 (12.00% thru 3-31-12)
Wilshire 5000:	14,769 (12.66% thru 3-31-12)

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