Views From The Heartland

Investment Perspective of Buena Vista Investment Management

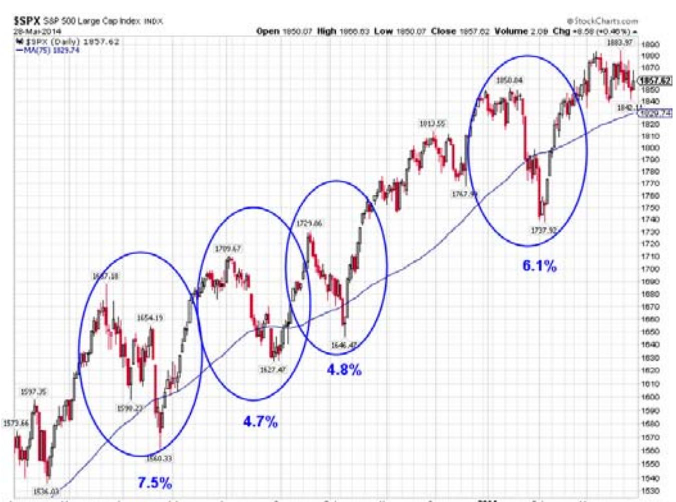
Volume 12 Issue 1
March 2014

THE SONG REMAINS THE SAME
US Economy is Improving, Stocks Remain Fairly Valued & Our Market Indicators Remain Positive

Being an investor in the "Information Age" is not always easy to do. We are bombarded with a constant stream of statistical data on our $17 trillion economy and with talking heads pontificating as to the meaning of every available data point. In addition, we now have data streaming to us from all over the globe, high-frequency trading and interconnected global markets.

In the first quarter of this year most of the data flow was decidedly negative, as winter weather caused a slowdown in US economic activity and China's slowing economic growth caused concerns about the global economy. All of this negative news caused the S&P 500 stock index to decline by over 6% as we began 2014. The market subsequently rebounded in February as investors realized that winter won't last forever. Then in March, the Ukrainian situation came to the forefront, as Russia moved into Crimea, causing the US equity market to end the quarter flat and international markets to post negative returns for the quarter.

With all of the recent market volatility we thought it a good time to take a step back and look at some of the issues that are of importance to "investors" over the balance of 2014.



First, although market corrections are never pleasant, they are a normal and healthy part of market activity. As the chart indicates, we have had four market corrections in the last 15 months, ranging from 4.7% up to 7.5%, all during a period of time that the market increased over 30%.

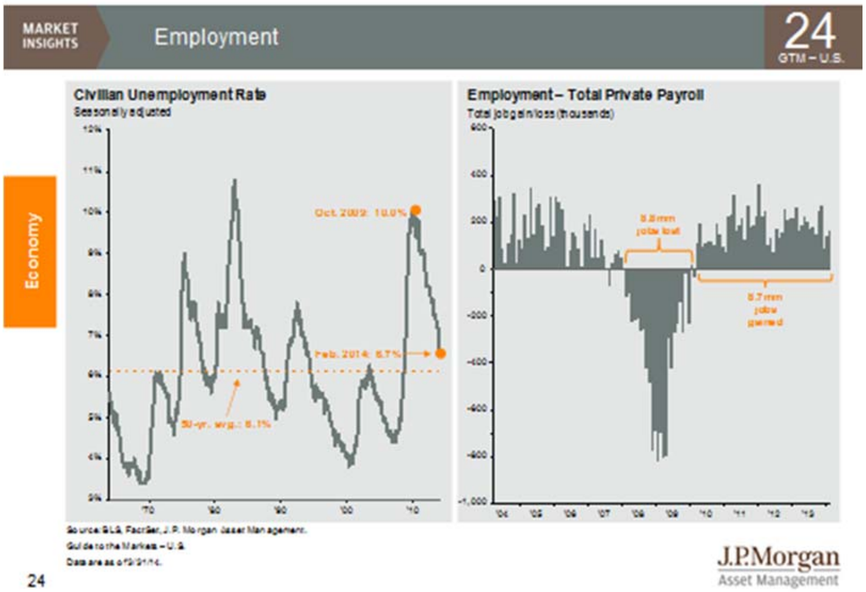
Also, there have been twelve market corrections in excess of 5% since the start of this bull market in 2009. With the last 10% correction in 2011, the potential for a 10% correction is high. According to recent Goldman Sachs research, there is a 68% chance of a 10% or greater correction during 2014.

As most of our readers know, our market indicators were put in place to help us remove some of the human emotion from our investment decision-making process and guide us through the ever present flow of information. At this time, all of our market indicators remain positive (see page 2) and our portfolios remain 90% to 95% invested. But if our indicators turn negative we will decrease equity exposure.

Second, on the economic front we do not believe that the cold weather this winter will derail economic activity in 2014. While it may have postponed some economic activity, we remain of the opinion that winter weather is only a temporary data point. In fact, most economists and investment strategists that we follow are calling for improved economic activity in 2014. Most of the projections we are seeing call for economic growth in the US of about 3% in 2014, a marked improvement over last year's growth rate.

OVER

(Continued) Third, as we head into the second quarter of 2014, one of the data points that will soon be getting additional press is the fact that the US economy will have finally recovered all the jobs lost in the great recession of 2008/2009. As the chart prepared by J.P. Morgan Asset Management indicates, the US economy lost 8.8 million jobs during that period and we have it now recovered 8.7 million jobs. Based on recent hiring patterns we should see a complete recovery in the next month or two.



Lower unemployment numbers, rising wages and improving home valuations should improve consumer confidence, which should then show up in improved retail sales numbers.

Fourth, while the consumer component of economic activity continues to improve, the corporate component has never been healthier. Operating earnings are at all-time highs, debt to equity ratios are at 25 year lows and profit margins are at 25 year highs. Recent announcements such as BMW's $1.5 billion factory in South Carolina, Tesla's $5 billion battery plant and major plant expansions by Chevron, BP and Dow Chemical could be a harbinger of corporations finally putting their cash to work rather than hording cash or buying back stock.

Finally, a recent piece of underappreciated data relates to the US banking system. The Federal Reserve Bank released stress test data on US banks and in total, they reported that the US banking system is healthy. Many of our largest financial organizations are now being allowed to increase their dividends and buy back stock. Companies like J.P. Morgan and Wells Fargo have seen their equity prices rise to all-time highs. A healthy banking system is a key component to improving economic activity.

So as we finish the first quarter of 2014 our message remains the same; the economy continues to improve; the US equity markets even after this 5 year run are fairly valued and corporations have begun to spend some of their cash, all factors that should lead to higher equity prices over the balance of 2014.

For additional supporting data see the communications section of the Buena Vista Investment Management website

BUENA VISTA INVESTMENT MANAGEMENT LLC

LONG-TERM MARKET INDICATORS

Buena Vista Conservative Buy/Sell Discipline:	Bullish (turned positive 1-2012)
Leuthold Major Trend Index	Bullish (turned positive in 7-2013)
InvesTech Negative Leadership Composite:	Bullish (turned positive 11-2013)
S&P 500 Stock Index:	1,872 (1.30% thru 03-31-14)
Dow Jones Total Market Index	19,711 (1.54% thru 03-31-14)

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Current Issue Graphics

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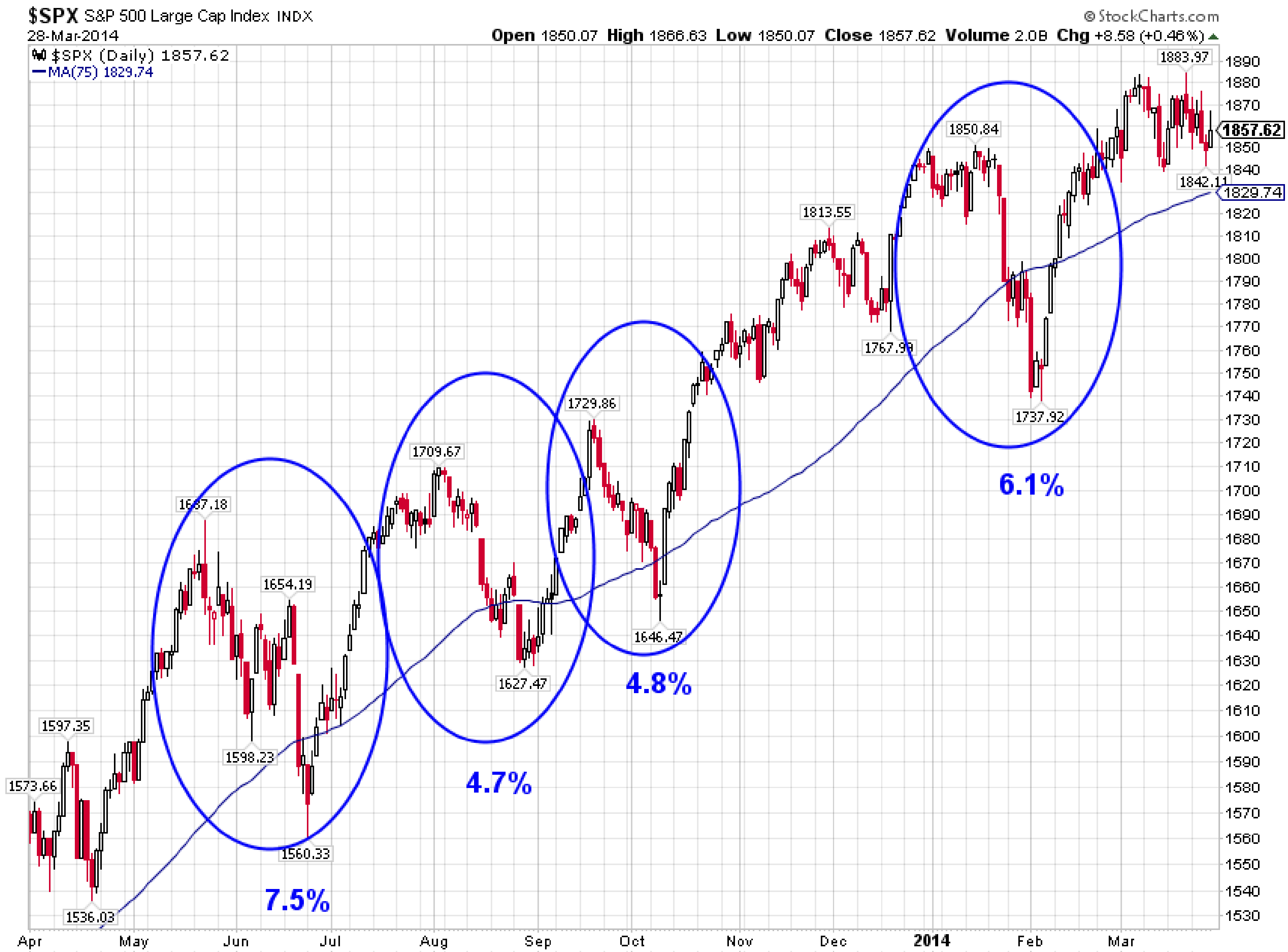


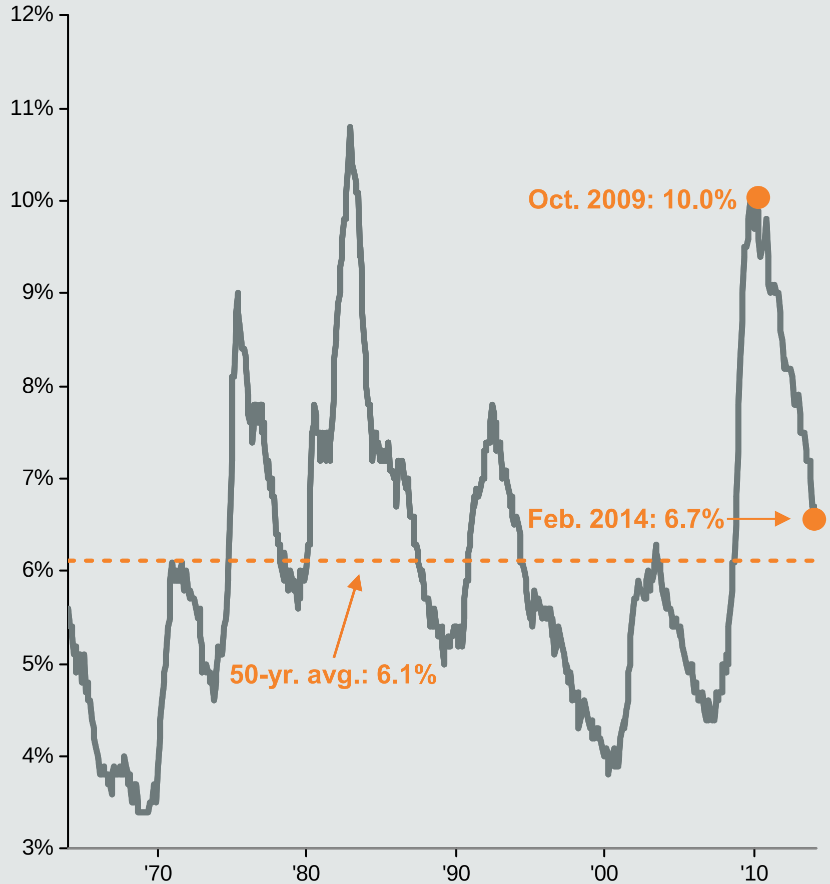
$SPX S&P 500 Large Cap Index INDX
© StockCharts.com
28-Mar-2014
Open 1850.07 High 1866.63 Low 1850.07 Close 1857.62 Volume 2.0B Chg +8.58 (+0.46%)
$SPX (Daily) 1857.62
MA(75) 1829.74
7.5%
4.7%
4.8%
6.1%
1573.66
1597.35
1536.03
1687.18
1598.23
1654.19
1560.33
1709.67
1627.47
1729.86
1646.47
1813.55
1767.99
1850.84
1737.92
1883.97
1842.11
Apr
May
Jun
Jul
Aug
Sep
Oct
Nov
Dec
2014
Feb
Mar

Employment

Economy

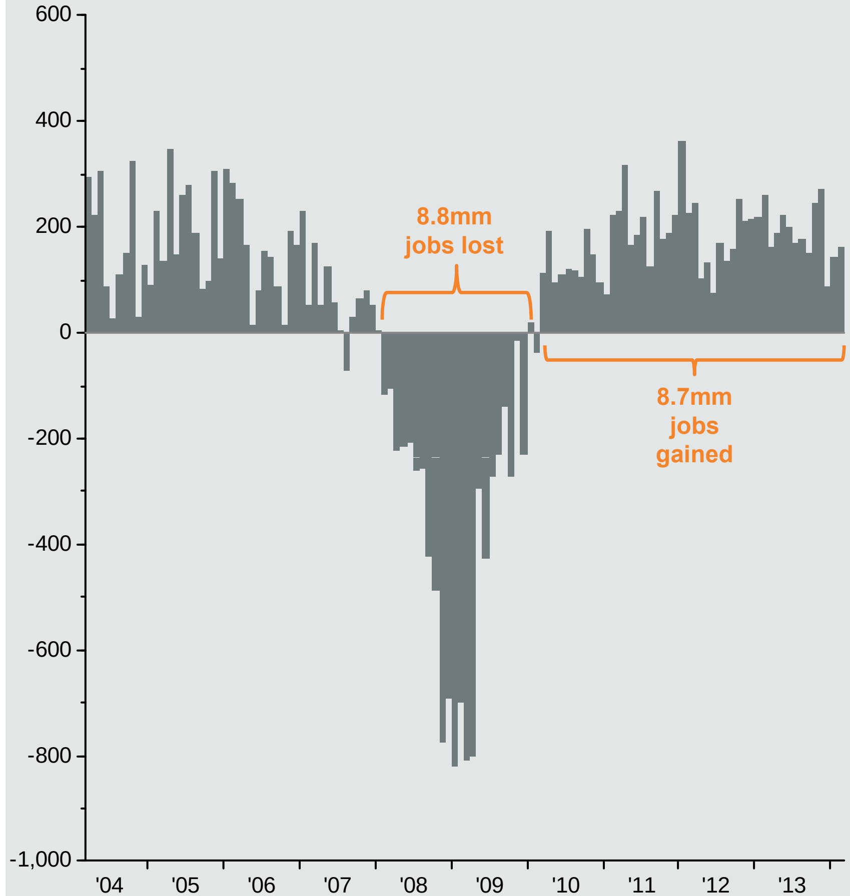
Civilian Unemployment Rate

Seasonally adjusted



Employment – Total Private Payroll

Total job gain/loss (thousands)



Source: BLS, FactSet, J.P. Morgan Asset Management.

Guide to the Markets – U.S.

Data are as of 3/31/14.

J.P.Morgan Asset Management

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Equity Market
Indicators

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MAJOR TREND INDEX DETAIL

Prepared by: *Doug Ramsey*

Major Trend Closes February At Five-Month High Of 1.21

For the final week of February, the Major Trend Index closed at a five-month high of 1.21, up sharply from 1.09 at the end of January. While this bull market's duration (five years) and magnitude (S&P gain of +175%) have exceeded our most optimistic expectations, the MTI and its related disciplines continue supporting our above-average exposure to equities in tactical accounts.

For the month, large gains in the **Supply/Demand** and **Momentum/Breadth/Divergence** categories more than offset a sharp deterioration in the **Attitudinal** indicator grouping. In addition, the **Economic/Interest Rates/Inflation** category has quietly strengthened over the last several months to join the technical work as a secondary bullish prop. Recent positive developments within this category include an upturn in "earnings breadth" momentum companies, a shift in a key corporate bond model to positive status, and continued subdued readings in various inflation measures. Oddly enough, liquidity measures in this category recently turned weaker despite the Fed's ongoing program of quantitative easing. For example, real year-over-year growth in the M2 money supply has fallen to just 4.1%, the lowest reading in almost three years. Tapering, it appears, IS tightening.

We're amused by the media pundits who label the current market upswing as the "most hated bull market" in history. Broker anecdotes might support such a description, but our Attitudinal category doesn't. Its net reading fell to –431 at the end of February—the most bearish tally since the April 2011 intermediate-term market top.

HOW IT ADDS UP: POSITIVE

	February 28, 2014			**January 31, 2014**		
	+	-	Net	+	-	Net
Intrinsic Value	46	356	-310	46	337	-291
Economic/Interest Rates/Inflation	287	130	157	279	149	130
Attitudinal	20	451	-431	70	388	-318
Supply/Demand	175	80	95	127	135	-8
Momentum/Breadth/Divergence	813	95	718	767	176	591
	1341	1112	229	1289	1185	104
Ratio:		1.21			1.09	
Status:		Positive			Positive	

The Major Trend Index is designed to recognize major market trends rather than intermediate moves, combining over 130 individual components to assess the overall health of the stock market. Revisions and weighting adjustments are made from time to time.

Major defensive market strategy moves are made when this composite reading, combining all five major indicator groupings, turns negative on balance by a 5% margin. A positive long term view is usually appropriate when the positives exceed the negatives by at least 5%. Ratios of positives to negatives of 0.95-1.05 are viewed as neutral territory.

INVESTECH FINANCIAL UPDATE: FRIDAY, March 28th, 2014

We have no changes to the Model Portfolio.

Equity markets remain in consolidation mode, but are still close to their recent bull market highs.

On the economic front, consumers appear to have survived the "polar vortex" as the Conference Board's survey of consumer confidence hit a new post recession high in March. Consumer spending continues to grow moderately and the job market is improving.

From a technical standpoint, breadth is stable and the bullish "Selling Vacuum" in our Negative Leadership Composite remains at +6. The InvesTech Bellwether Index is moving in tandem with the blue chip indexes, but secondary indexes such as the Dow Jones Transportation Average and the small-cap Russell 2000 experienced some weakness over the past few days.

Strategy: Based on stable fundamental and technical data, we are still comfortable with the 82% invested position in the Model Fund Portfolio. At the same time, we are closely monitoring the evidence as it unfolds.

The next update will be next Friday after 12:00 p.m. Eastern time.

INVESTECH PROPRIETARY INDICATOR UPDATE:

1) MONETARY

MEP :	+13	(range: -100 to +100)

2) BREADTH

A-D Divergence Index:	+14	(trend is most important)

3) LEADERSHIP – Negative Leadership

Bullish Selling Vacuum:	+6	(range: 0 to +100)
Bearish Distribution:	0	(range: 0 to -100)

4) LEADERSHIP – Intermediate Term Indexes

NYSE:	+54	(range: -100 to +100)
NASDAQ:	+66	(range: -100 to +100)

5) SHORT-TERM INDICATORS

Pressure Factor:	-8	(Oversold = -30 or below / Overbought = +30 or above)
Call/Put Ratio:	-11	(Oversold = -50 or below / Overbought = +50 or above)

KEY:

1) Measures the monetary climate. Most bear markets begin with unfavorable or hostile monetary conditions.

MEP : the "monetary climate" as controlled by the Federal Reserve, adjusted for the positive/negative impact of international money flows on bond yields.

2) Measures market "breadth" or participation. Deteriorating breadth is one of the earliest and most

reliable of bear market warning flags.

3) Measures internal leadership for evidence of a new bull market – or the danger of an imminent bear market.
   - (a) A bullish Selling Vacuum indicates the absence of bear market (downside) leadership. Always present at the early stage of a new bull market, but can drop to 0 in a maturing bull market.
   - (b) A bearish Distribution reveals that bear market leadership is present and/or rapidly increasing.
4) Measures relative leadership strength between the NYSE and NASDAQ. Readings above +50 are usually very bullish for the 3-4 week outlook; readings below -50 are bearish.
5) Used to forecast the short-term outlook for the market, which can be useful in improving entry/exit decisions in individual stocks or mutual funds. When at Oversold levels, a rally or upward reversal is very likely within the next few weeks. An Overbought reading indicates the market has climbed too far too fast and is likely to experience a consolidation or correction.

$SPX S&P 500 Large Cap Index INDX
3-Apr-2014
@StockCharts.com
Open 1891.43 High 1893.80 Low 1882.65 Close 1888.70 Chg -2.20 (-0.12%)
$SPX (Daily) 1888.70
MA(300) 1694.17
BUENA VISTA INVESTMENT MANAGEMENT
CONSERVATIVE BUY/SELL DISCIPLINE
We would need a 10% decline in the S&P 500
before we would trigger a "sell" signal in the
Buena Vista Conservative Buy/Sell Discipline.
10.32%
1343.35
1398.11
1485.01
1597.35
1536.03
1687.18
1654.19
1598.23
1560.33
1709.67
1627.47
1729.86
1646.47
1850.84
1737.92
Nov
Dec
2013
Feb
Mar
Apr
May
Jun
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Nov
Dec
2014
Feb
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Apr

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Additional Newsletter Documentation

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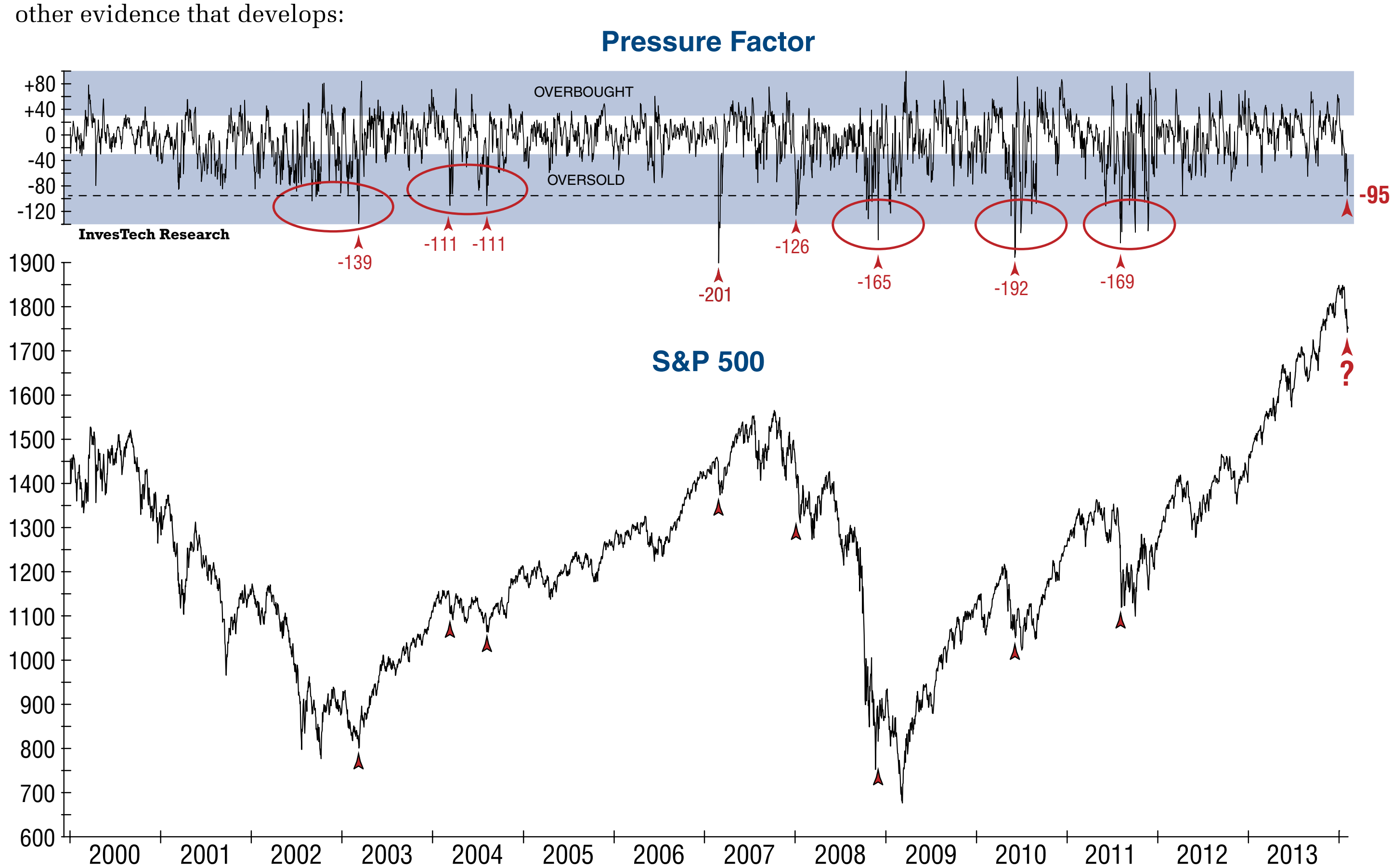
From a technical viewpoint, it looks like a correction (not a bear market) so far…

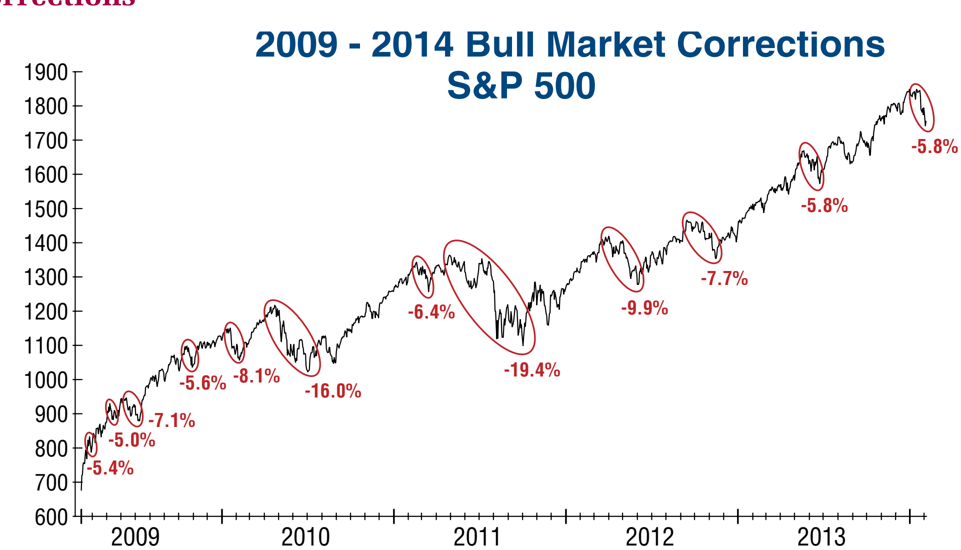
Corrections are a healthy part of every bull market as they tend to keep exuberance and speculation in check. And as noted in recent issues, the dramatic rise in margin debt and bullish sentiment was clearly reflecting a worrisome level of overconfidence. The recent fast sell-off should quickly knock that exuberance down a notch or two – which isn't a bad thing.

Our Pressure Factor (one of our short-term tools) has already dropped deeply into the oversold region. Based on volume flow and relative price pressure, this Pressure Factor is designed to tell us when the market is overbought or oversold… and to help identify short-term peaks and bottoms in the market. Generally, a -30 level is considered oversold, and a reading of -80 or below is deeply oversold and indicative of an impending short-term bottom – regardless of whether in a bull market or bear market. A dashed line has been placed at the current -95 reading to show past instances where market "internals" have become this oversold. This raises the odds (but does not eliminate them) that this correction will not be excessively deep. More importantly, it suggests a rally attempt is ahead that will give us more time to assess other evidence that develops:



A historical perspective of corrections

Shown in the graph at right are all the corrections (5% or greater) in the current bull market. While this sell-off of the past month might feel steep or severe, in actuality it simply mirrors most of the other 11 corrections that we've experienced thus far. And as you'll see on the following page, we were due, or perhaps overdue, for such a correction…



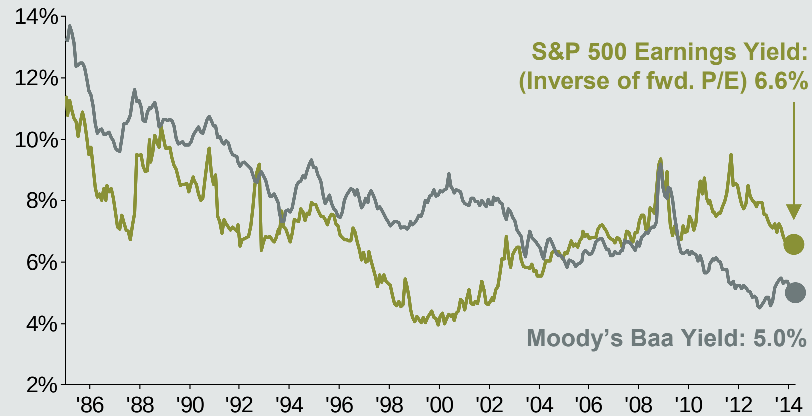
Stock Valuation Measures: S&P 500 Index

S&P 500 Index: Valuation Measures				Historical Averages			
Valuation Measure	Description	Latest*	1-year ago	3-year avg.	5-year avg.	10-year avg.	15-year avg.
P/E	Price to Earnings	15.2x	13.7x	13.1x	13.2x	13.8x	16.0x
P/B	Price to Book	2.8	2.3	2.3	2.2	2.4	2.9
P/CF	Price to Cash Flow	10.6	9.4	9.0	8.8	9.5	10.7
P/S	Price to Sales	1.6	1.4	1.3	1.2	1.3	1.5
PEG	Price/Earnings to Growth	1.7	1.5	1.3	1.3	1.7	1.6
Div. Yield	Dividend Yield	2.1%	2.2%	2.2%	2.2%	2.1%	1.9%

S&P 500 Shiller Cyclically Adjusted P/E

Adjusted using trailing 10-yr. avg. inflation adjusted earnings

S&P 500 Earnings Yield vs. Baa Bond Yield

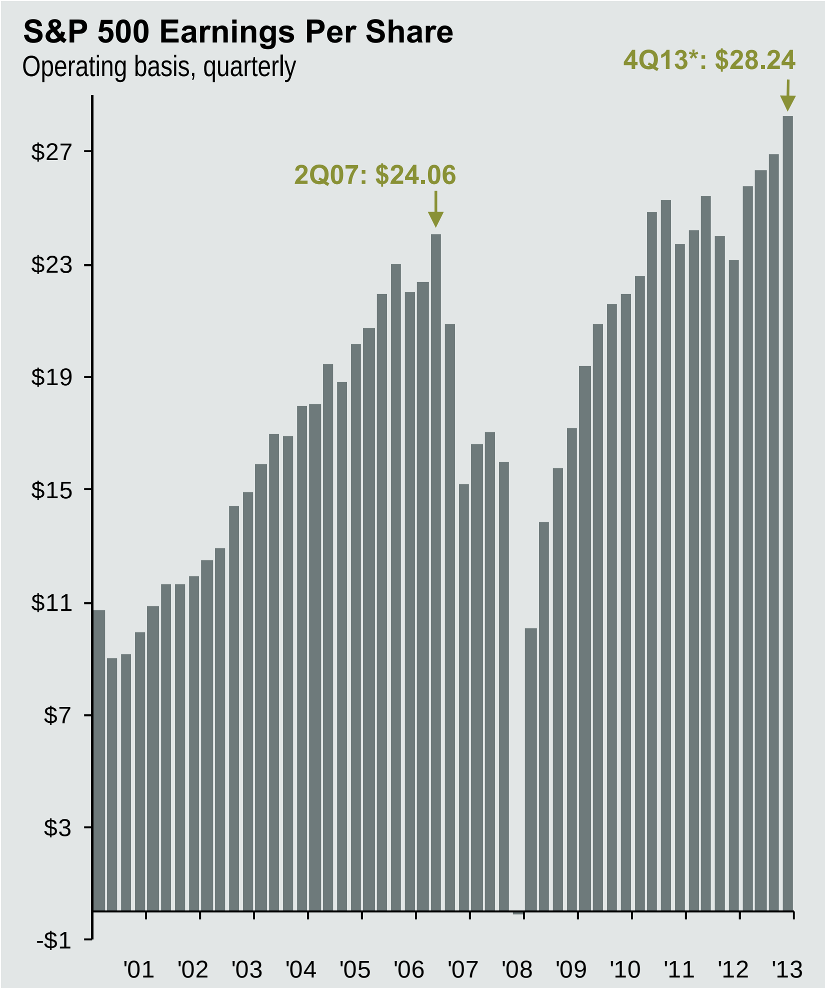


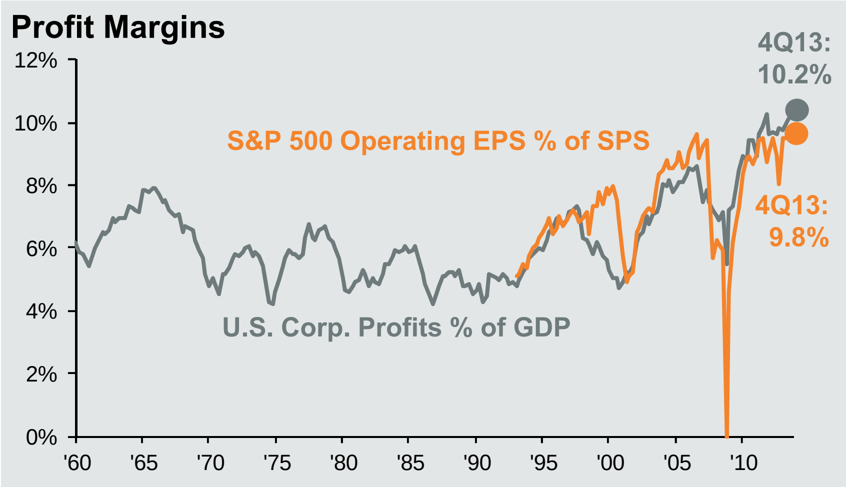
Source: (Top) Standard & Poor's, FactSet, Robert Shiller Data, J.P. Morgan Asset Management.
Price to Earnings is price divided by consensus analyst estimates of earnings per share for the next 12 months. Price to Book is price divided by book value per share. Data post-1992 include intangibles and are provided by Standard & Poor's. Price to Cash Flow is price divided by consensus analyst estimates of cash flow per share for the next 12 months. Price to Sales is calculated as price divided by consensus analyst estimates of sales per share for the next 12 months. PEG Ratio is calculated as NTM P/E divided by NTM earnings growth. Dividend Yield is calculated as consensus analyst estimates of dividends for the next 12 months divided by price. All consensus analyst estimates are provided by FactSet. (Bottom left) Cyclically adjusted P/E uses as reported earnings throughout. *Latest reflects data as of 3/31/2014.
(Bottom right) Standard & Poor's, IBES, Moody's, FactSet, J.P. Morgan Asset Management.
Guide to the Markets – U.S.
Data are as of 3/31/14.

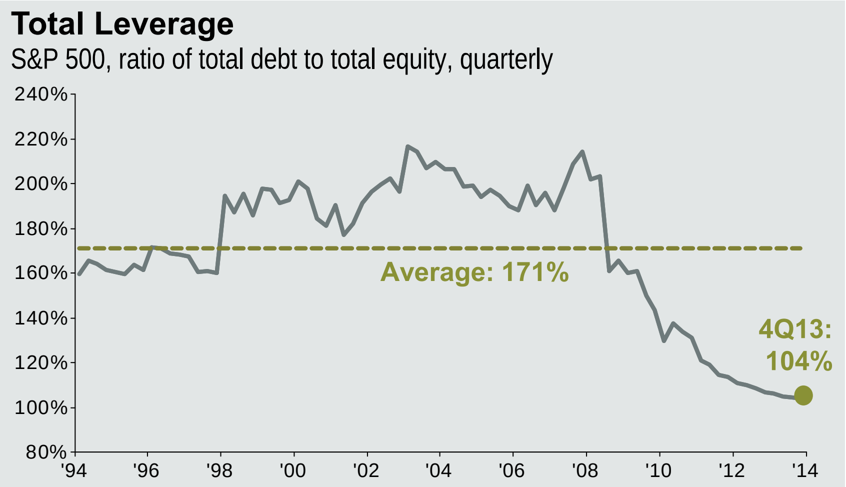
J.P.Morgan Asset Management

Corporate Profits and Leverage

Equities







Source: Standard & Poor's, Compustat, J.P. Morgan Asset Management.
EPS levels are based on operating earnings per share. *Most recently available data is 3Q13 as 4Q13 are Standard & Poor's preliminary estimates.
Past performance is not indicative of future returns.

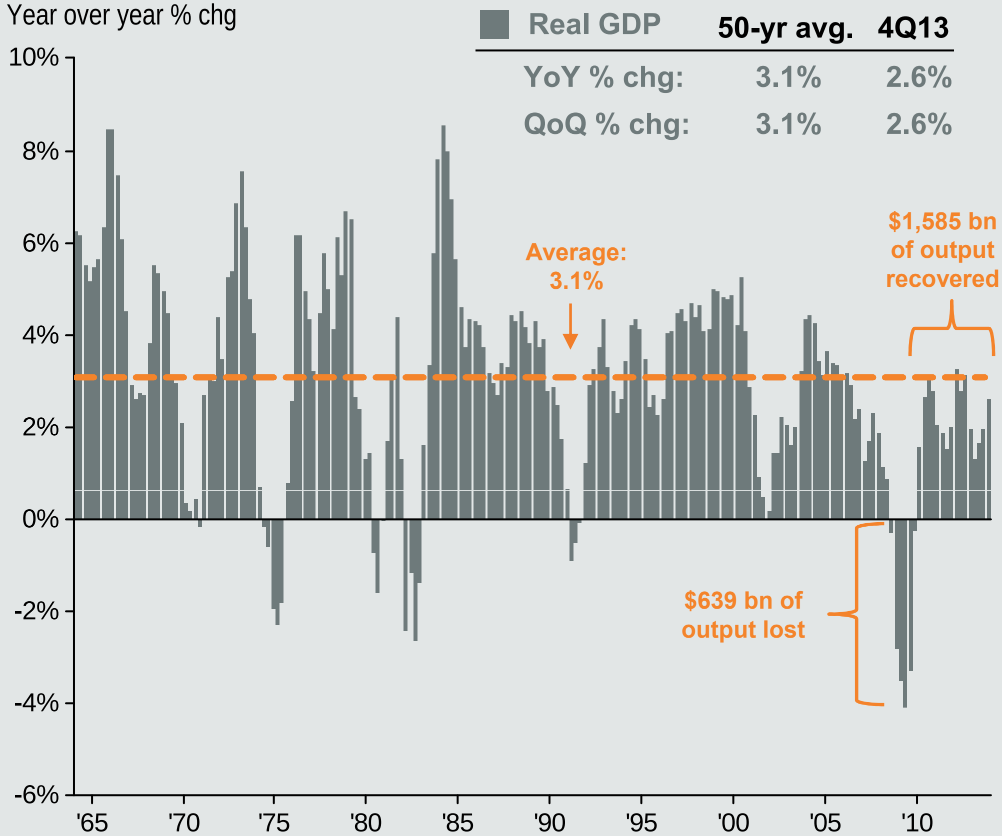
Data are as of 3/31/14.

J.P.Morgan Asset Management

Economic Growth and the Composition of GDP

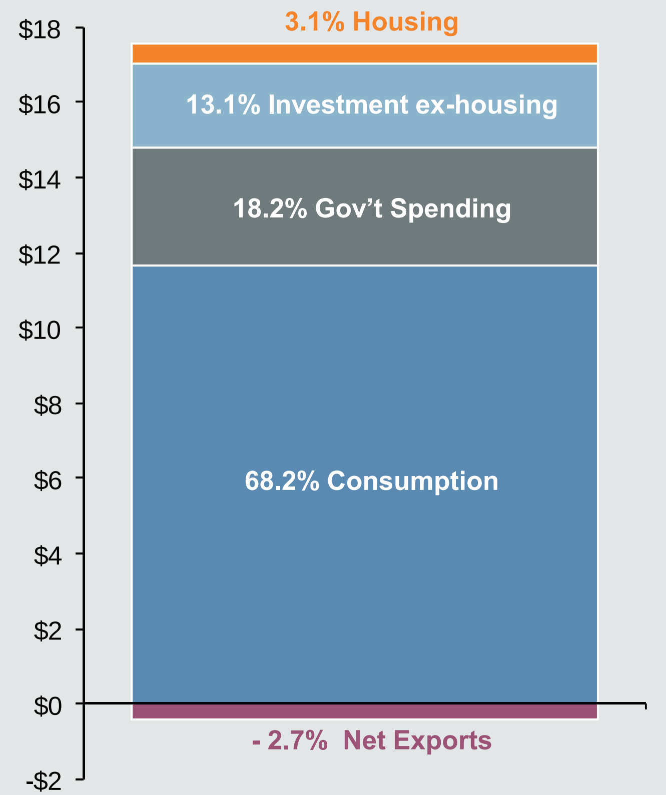
Real GDP

Year over year % chg



Components of GDP

4Q13 nominal GDP, trillions USD



Source: BEA, FactSet, J.P. Morgan Asset Management.

Values may not sum to 100% due to rounding. Quarter over quarter percent changes are at an annualized rate.

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Data are as of 3/31/14.