



Views From The Heartland

Investment Perspective of Buena Vista Investment Management

Volume 13 Issue 1
March 2015

MOVING TO A MORE DEFENSIVE POSTURE Anticipating More Volatility in 2015

In March 2009, six years ago, the title of our March newsletter read as follows:

Confidence & Economic Activity Will Recover
The Seeds of Economic Recovery are now in Place

Since that time we have remained “bullish” on US equities as economic activity, corporate earnings and consumer confidence rebounded from their respective lows back in 2009. Over the last six years the S&P 500 stock index has produced double-digit gains in five out of the last six years, generating an average annual gain of 15%. Equally important is the fact that over that period of time the index has not had one negative year, with only 2011’s 0.00% not being a double-digit return.

It has been a great run for equity investors over the last six years but we are now of the opinion that it is time to take a more defensive position in our portfolios. Our position is not driven by the opinion that the US economy is in bad shape or that we are heading into a recession. Our position on the US economy is the exact opposite. The US economy is one of the strongest in the world and economic activity, with the exception of the oil and gas industry, is exceptionally strong.

If the US economy is healthy then why the change of opinion? As always with the stock market the answer is never simple. In this issue we will look at some of the reasons for putting our defensive team on the field.

Expensive Valuations - We have seen basic stock market valuation measures such as price to book, price to cash flow, dividend yields and price/earnings ratios go from 25 year lows in 2009 to at or above their 25 year averages. Although valuations are not stretched to levels we saw in 2000 and could very well expand more in the short term, it is always better to buy stocks when valuations are at lower levels than today’s valuations. (See on-line version of this newsletter for specific valuation information.)

No Growth in Corporate Earnings - From the bottom in 2009, corporate earnings for companies in the S&P 500 have more than doubled due to improving sales and margins. Improving corporate earnings are always the foundation for a good stock market. But in 2015 we may be looking at a change in this dynamic, due to the fall in the price of oil and the strength of the US dollar.

In the last half of 2014 the US dollar went on a tear in currency markets, rising over 20% against most currencies. This massive move will most likely negatively impact earnings results of US multinational companies in 2015. Also, during the first quarter we have seen analysts lowering earnings estimates for oil and gas companies, companies themselves lowering expectations for 2015 earnings, and small oil and gas companies filing for bankruptcy.

So with large multinational companies and oil/gas companies facing a challenging environment in 2015, we could be in for a year with little to no earnings growth. This is already showing up as Wall Street market strategists are lowering earnings estimates according to Yardeni Research and Factset. (Over)

Moving to a More Defensive Posture as we Anticipate More Volatility

The Fed Will Finally Raise Rates - 2015 most likely will be the year that the Fed changes its easy money policies and begins to raise the Fed Funds rate. It is our position that we will finally see an increase in interest rates during 2015. This major change in market dynamics will ultimately be a positive for equities, as rising interest rates usually mean a better economy and higher corporate profits. While in the intermediate-term we think that rising interest rates should be good for our investment portfolios. In the short run markets will most likely respond negatively to a change in the accommodative policies of the Fed.

Market Psychology - On a day to day basis, stock market movements don't always correlate exactly to what is happening economically or to the prospects of specific companies. Rather as Benjamin Graham and David Dodd pointed out in their 1934 book Security Analysis...

“The stock market is a voting machine rather than a weighing machine. It responds to factual data not directly but only as they affect the decision of buyers and sellers”...

While we consider ourselves intermediate-term investors we are aware of short-term market psychology and its impact on our investments. In recent months, a whole host of technical and fundamental market indicators have begun to weaken. This is evident in a number of indicators such as the Leuthold Major Trend Index, Investech's Negative Leadership Composite, advance/decline lines, relative strength numbers, recent weakness in the Dow Jones Transport Index, changes in margin debt to name few. (See on-line version of this newsletter for additional information on these indicators.)

The Defensive Team - Taking volatility risk out of a portfolio can be accomplished in a number of different ways. Moving to a higher cash/money market position is the easiest and most effective way to reduce portfolio risk, As Steve Leuthold said...“Cash is not trash as cash reserves provide the investor with ammunition to take advantage of opportunities...”

But cash is not the only member of the defensive team. In a diversified portfolio, we can purchase fixed income investments with a stated maturity or structured notes with a buffer percentage. We can also move to more defensive mutual funds. Dividend paying stocks may not be considered defensive in a traditional definition but in today's low income world, a 3% -5% yield looks attractive to us as investors, as we wait for or ride through a period of market volatility. As no one size fits all, investment portfolios will be tailored to fit client risk tolerances and personal preferences.

As we enter the second quarter of 2015 we begin to move to a more defensive posture in our portfolios.

For additional supporting data on this newsletter please 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 2-2015)
InvesTech Negative Leadership Composite:	Neutral (turned neutral 10-2014)
S&P 500 Stock Index:	2,067.89 (0.44% thru 3-31-15)
Dow Jones Total Market Index:	21,707.57 (1.32% thru 3-31-15)

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

Additional Newsletter Documentation

Buena Vista Investment Management LLC
241 Third Street South
Wisconsin Rapids, WI 54494
715-422-0700
<http://buenavistainv.com>



RELATIVE STRENGTH DATA

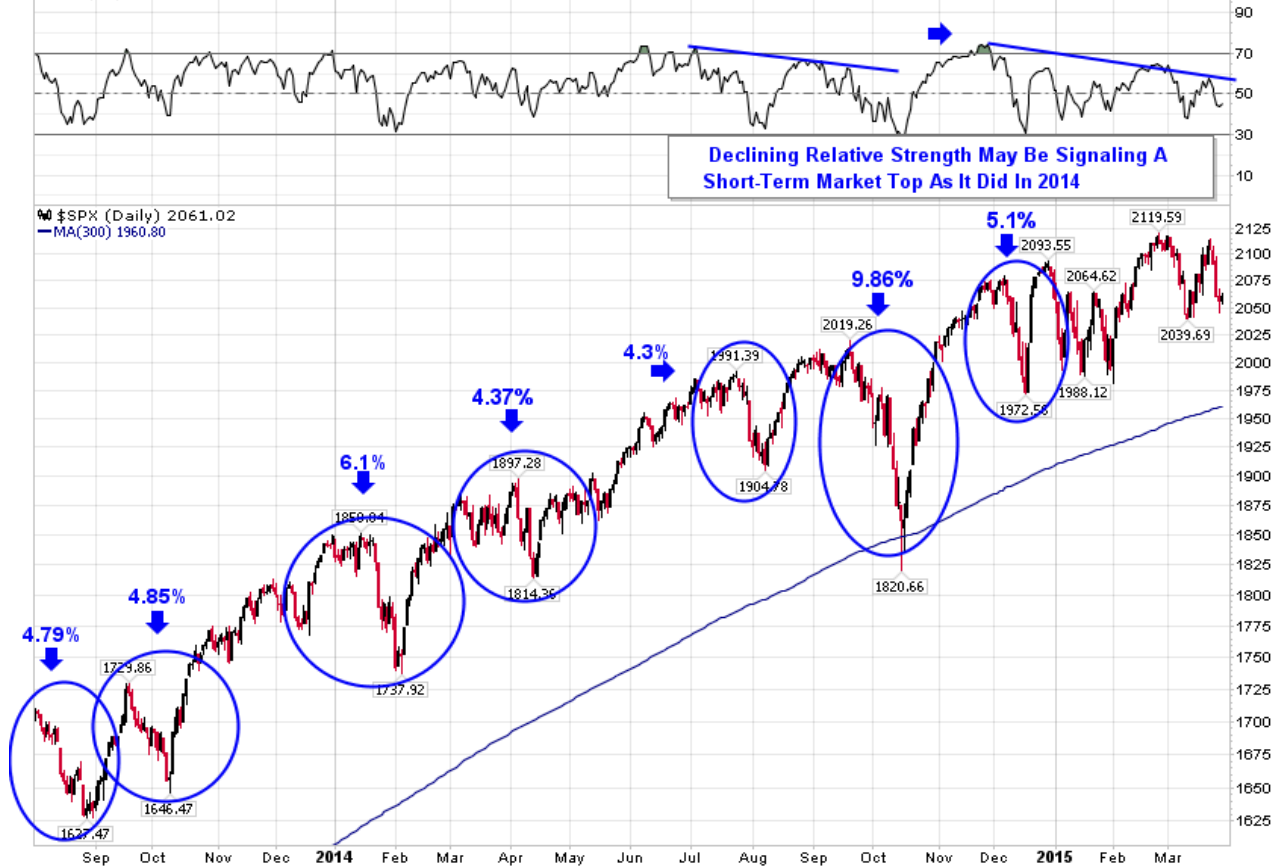
\$SPX S&P 500 Large Cap Index INDX

27-Mar-2015

Open 2055.78 High 2062.83 Low 2052.96 Close 2061.02 Volume 2.08 Chg +4.87 (+0.24%)

© StockCharts.com

▲ RSI(14) 45.12



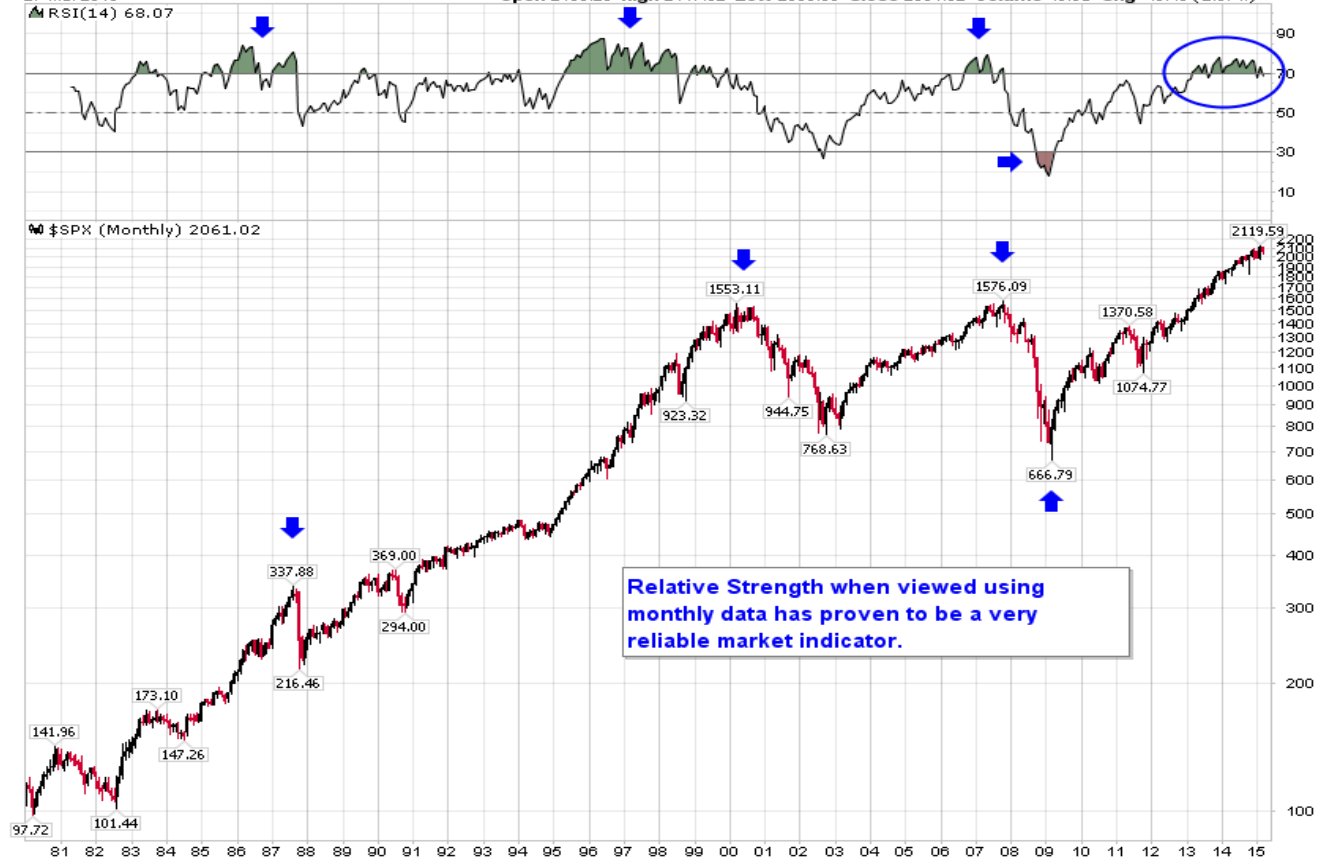
\$SPX S&P 500 Large Cap Index INDX

27-Mar-2015

Open 2105.23 High 2117.52 Low 2039.69 Close 2061.02 Volume 43.8B Chg -43.48 (-2.07%)

© StockCharts.com

▲ RSI(14) 68.07



Stock Valuation Measures: S&P 500 Index

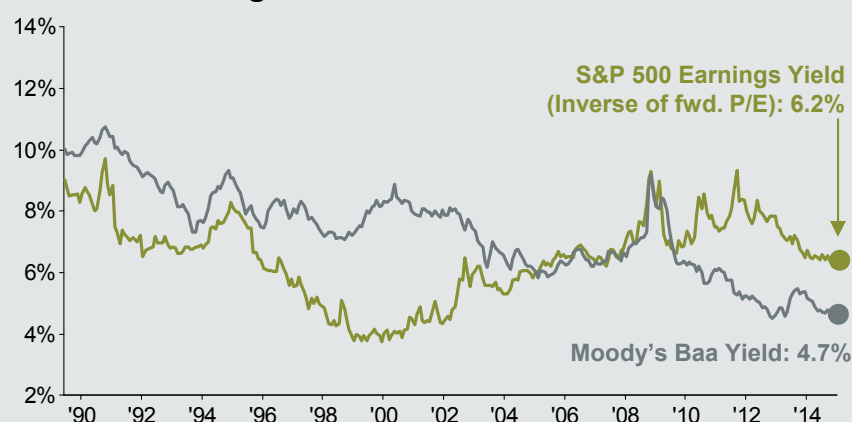
U.S. Equity: Valuation Measures

U.S. Equity: Valuation Measures			Historical Averages			
Valuation Measure	Description	Latest	1-year ago	5-year avg.	10-year avg.	25-year avg.*
P/E	Price to Earnings	16.2x	15.4x	13.5x	13.8x	15.6x
CAPE	Shiller's P/E	27.3	25.5	22.5	22.9	25.3
Div. Yield	Dividend Yield	1.9%	1.9%	2.0%	2.0%	2.1%
REY	Real Earnings Yield	3.7%	3.7%	4.3%	3.3%	2.3%
P/B	Price to Book	2.9	2.7	2.3	2.4	2.9
P/CF	Price to Cash Flow	11.4	10.8	9.3	9.7	11.3
EY Spread	EY Minus Baa Yield	1.5%	1.6%	2.2%	1.3%	-0.7%

S&P 500 Index: Forward P/E Ratio



S&P 500 Earnings Yield vs. Baa Bond Yield



Source: Standard & Poor's, FactSet, Robert Shiller Data, FRB, J.P. Morgan Asset Management. Price to Earnings is price divided by consensus analyst estimates of earnings per share for the next 12 months. Shiller's P/E uses trailing 10-years of inflation adjusted earnings as reported by companies. Dividend Yield is calculated as the trailing 12-month average dividend divided by price. Real Earnings Yield is defined as (trailing four quarters of reported earnings/price) - year over year core CPI inflation. Price to Book Ratio is the price divided by book value per share. Price to Cash Flow is price divided by NTM cash flow. EY Minus Baa Yield is the forward earnings yield (consensus analyst estimates of EPS over the next 12 months divided by price) minus the Moody's Baa seasoned corporate bond yield. *P/CF is a 20-year avg. due to cash flow data availability.

Guide to the Markets – U.S. Data are as of 12/31/14.

Buena Vista Investment Management, LLC

Creative Investment Solutions

Disclosures

The strategic investment tools listed below are used by Buena Vista Investment Management to assist in its investment process. The tools are primarily used in the formulation of asset allocation decisions relating to the allocation between equity investments and risk free money market investments. The tools are focused on intermediate to long-term market trends and do not forecast short-term movements. Do not rely on these tools to make investment decisions.

March 27, 2015

Leuthold Major Trend Index	Bullish	1.07
-----------------------------------	----------------	-------------

The index status is considered to be positive, neutral or negative based on its underlying components. A reading above 1.05 is considered positive, between 0.95 and 1.05 is considered neutral and a reading below 0.95 is negative. The Leuthold Major Trend Index is considered by Buena Vista Investment Management to be a leading indicator.

Investech Negative Leadership Composite	Neutral	Selling Vacuum +3	Bearish Distribution -0
------------------------------------------------	----------------	--------------------------	--------------------------------

The Composite has two components:

1) Selling Vacuum (Bullish) - A reading of +20 is considered very bullish and may signal the start of a new bull market. Readings of above zero signals an ongoing bullish stock environment; and 2) Distribution (Bearish) - A reading below zero is considered to be bearish. The Investech Negative Leadership Composite is considered by Buena Vista Investment Management to be a leading indicator.

Buena Vista Conservative Buy/Sell Discipline	Bullish	101 S&P POINTS / 4.90% to sell
-----------------------------------------------------	----------------	-------------------------------------------

The Buena Vista Conservative Buy/Sell Discipline utilizes the 300 day moving average of the S&P 500 stock index as a trigger for long-term buy and sell decisions. The discipline is either Bullish or Bearish depending on the relationship of the moving average and the index. The Buena Vista Conservative Buy/Sell Discipline is considered by Buena Vista Investment Management to be a lagging indicator.

Buena Vista Investment Management, LLC

Creative Investment Solutions

HISTORIC DATA FOR STRATEGIC INVESTMENT TOOLS

DATE	LEUTHOLD MAJOR TREND INDEX	INVESTECH NEGATIVE LEADERSHIP COMPOSITE	BUENA VISTA CONSERVATIVE BUY/SELL DISCIPLINE
March 27, 2015	1.07 Bullish	+3/0 Neutral	101 points / 4.90% to sell
March 20, 2015	1.09 Bullish	+3/-5 Neutral	152 points / 7.21% to sell
March 13, 2015	1.06 Bullish	+4/-2 Neutral	144 points / 6.86% to sell
March 6, 2015	1.11 Bullish	+4/0 Neutral	122 points / 5.89% to sell
February 27, 2015	1.11 Bullish	+4/-4 Neutral	160 points / 7.60% to sell
February 20, 2015	1.10 Bullish	+4/-13 Neutral	172 points / 8.15% to sell
February 13, 2015	1.04 Neutral	+1/-28 Neutral	162 points / 7.72% to sell
February 6, 2015	0.96 Neutral	+0/-43 Neutral	125 points / 6.08% to sell
January 30, 2015	0.99 Neutral	+0/-54 Neutral	107 points / 5.766% to sell
January 23, 2015	0.97 Neutral	+0/-65 Neutral	98 points / 4.86% to sell
January 16, 2015	0.97 Neutral	+0/-65 Neutral	98 points / 4.86% to sell
January 9, 2015	0.99 Neutral	+0/-57 Neutral	130 points / 6.36% to sell
January 2, 2015	1.00 Neutral	+0/-65 Neutral	150 points / 7.28% to sell
December 26, 2014	0.99 Neutral	+0/-79 Neutral	183 points / 8.76% to sell
December 19, 2014	0.97 Neutral	+0/-96 Bearish	170 points / 8.21% to sell
December 12, 2014	0.99 Neutral	+0/-66 Neutral	107 points / 5.36% to sell
December 5, 2014	1.02 Neutral	+0/-35 Neutral	189 points / 8.96% to sell
November 27, 2014	1.04 Neutral	+0/-21 Neutral	185 points / 8.95% to sell
November 21, 2014	1.01 Neutral	+1/-52 Neutral	185 points / 8.96% to sell
November 14, 2014	1.03 Neutral	+1/-49 Neutral	174 points / 8.19% to sell
November 7, 2014	1.01 Neutral	+1/-52 Neutral	166 points / 8.71% to sell
October 31, 2014	0.93 Negative	+1/-62 Neutral	159 points / 9.21% to sell
October 24, 2014	0.89 Negative	+2/-76 Neutral	110 points / 5.65% to sell
October 17, 2014	0.83 Negative	+2/-97 Bearish	37 points / 1.96% to sell
October 10, 2014	0.90 Negative	+3/-31 Neutral	79 points / 4.10% to sell
October 3, 2014	0.97 Neutral	+3/-9 Neutral	125 points / 6.35% to sell