Buena Vista Investment Management, LLC

Creative Investment Solutions

Investment Update
October 15, 2014

There is no question that the last two weeks has been very rough for the equity markets. As of this writing the stock market is down over 9% since its peak in September and today, October 15th, we saw the Dow Jones Industrial Average fall over 400 points only to rebound at the end of the day. Then there is the bond market, which has been on its own wild ride.

The story behind the recent decline in the US equity market is multi-faceted. There is the ongoing Ebola story, the rise of ISIS fighters in the Middle East, Russia's territory grab, the rapid decline in the price of oil and, in our opinion, the most important factor....a slowdown in global growth.

With that as a backdrop I thought I would start with a look back at another time when the equity markets were concerned about global growth. The year was 1998 and the markets were dealing with a slowdown in the emerging markets and problems in Russia. It also had to deal with the blow-up of Long-Term Capital Management, a hedge fund management firm. Negative headlines were the norm in the fall of 1998

Long-Term Capital Management L.P. Receives Bailout. The Wall Street Journal (Sept. 24, 1998)
Wall Street Party Is Over. Business Week (September 14, 1998)
Junk Bonds Take Dive. The Wall Street Journal (September 8, 1998)
Latin America Problems Add to Russian Wows. The Wall Street Journal (September 3, 1998)
Russian Markets Worry Wall Street and Bankers. The Wall Street Journal (August 27, 1998)

The stock market dropped dramatically, making a low in October 1998. But as the chart below indicates; the declines were swift and short, with the market rallying into year-end.

So what does all of this have to do with today's market?

The markets in 1998 declined on the assumption that global growth was going to slow, due to ongoing world events. When the market came to realize that global capitalism was not dead, it rebounded sharp and finished the year at levels higher than the July peak.

Today is most certainly not 1998, but is does show us that markets can and will rebound when they focus on economic realities. As some our recent newsletters have pointed out; the recovery in the US economy is an ongoing story, corporate balance sheets and profits are strong, interest rates are low, market valuations are reasonable and now the lower gas prices will put more money into the pockets of consumers.

We hold the view that Ebola will not cause the world to shut down, the Middle East will always be volatile and uncertain and Europe will continue to exhibit slow growth (as it has for many years) and the decline in the price of oil will soon be seen as a positive rather than a negative.

Our perspective is that the markets were in need of a healthy correction but that does not mean that we are headed into a long drawn out bear market. So it is our position that 2014 will look something like 1998, with equity prices rebounding after the markets realize that global growth is not finished just yet.

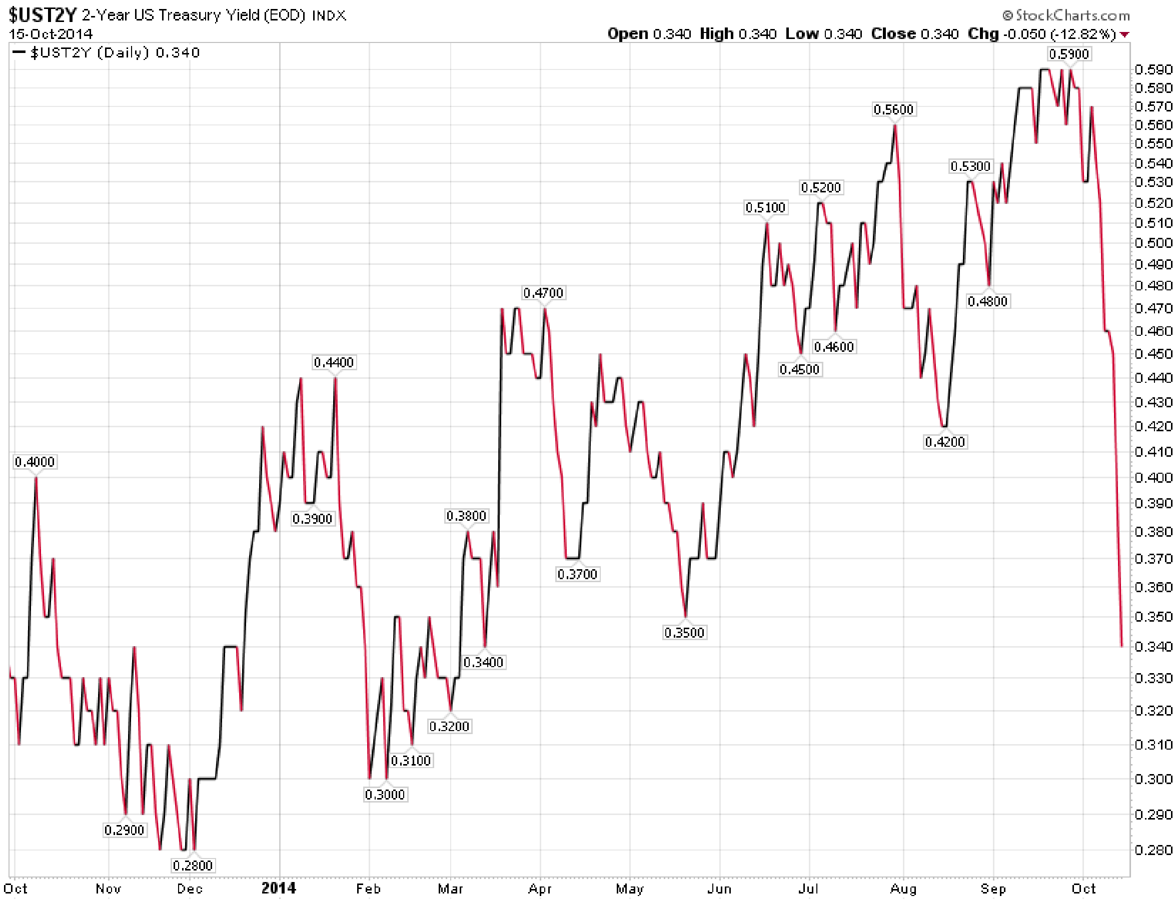
Respectfully,

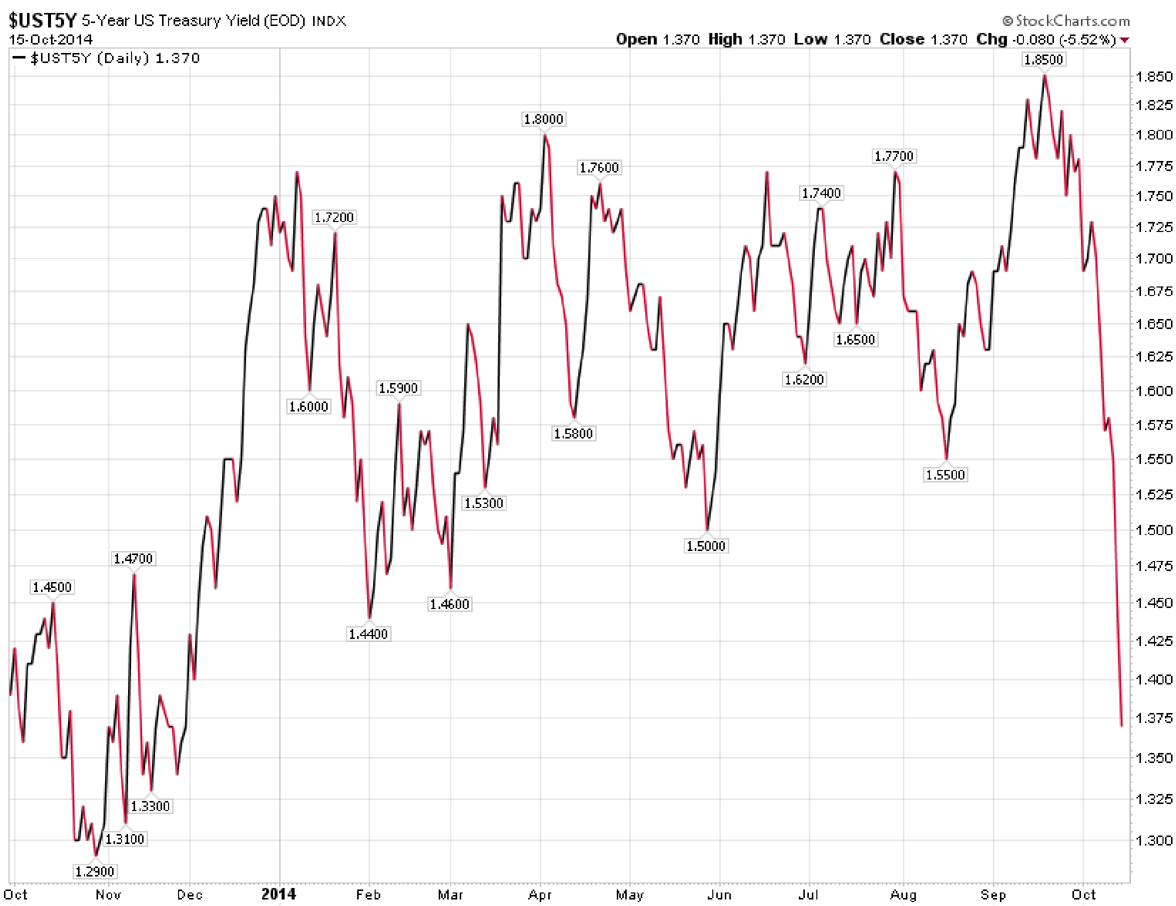
John

John Moffat, Partner
Buena Vista Investment Management

On the next page I have included two charts; one for the 2 year US Treasury Note and one for the 5 year US Treasury Note. Both instruments are good safe haven investments.

The price movement has been truly amazing. Look at the right side of the chart to see what I am talking about.


$UST2Y 2-Year US Treasury Yield (EOD) INDX
©StockCharts.com
15-Oct-2014
Open 0.340 High 0.340 Low 0.340 Close 0.340 Chg -0.050 (-12.82%)
$UST2Y (Daily) 0.340
Oct
Nov
Dec
2014
Feb
Mar
Apr
May
Jun
Jul
Aug
Sep
Oct


$UST5Y 5-Year US Treasury Yield (EOD) INDX
©StockCharts.com
15-Oct-2014
Open 1.370 High 1.370 Low 1.370 Close 1.370 Chg -0.080 (-5.52%)
$UST5Y (Daily) 1.370
Oct
Nov
Dec
2014
Feb
Mar
Apr
May
Jun
Jul
Aug
Sep
Oct