



Views From The Heartland

Investment Perspective of Buena Vista Investment Management

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Walking A Tightrope Our Stock Market Indicators Inch Closer To a Sell Signal

As we end the third quarter of 2004, the US stock market continues to edge lower as it responds to the uncertainty in Iraq, the upcoming Presidential election and higher oil prices. After the S&P 500 stock index hit a high of 1163 in March 2004, we have slowly moved lower, down to its present level of approximately 1110. **A move below 1087 on the S&P stock index would likely initiate a sell signal for the Buena Vista Investment Management Conservative Buy/Sell Discipline.**

The Buena Vista Investment Management Conservative Buy/Sell Discipline is **a proprietary tool we developed to help protect client principal in the event of a “bear” market.** The discipline was created after studying 30 years of stock market history and is designed to remove human emotion when reviewing market movements and making investment decisions.

The discipline was designed around the fact that market downturns differ in length and severity. **The concept is simple; the longer the downturn, the greater the severity of the downturn and the greater the allocation to “safe” investments.** In very simple terms here is how it works; after the initial sell signal is achieved, portfolios are moved to a 25% money market position. If we remain in a sell signal for longer than three months the portfolios will be moved to a 50% allocation to money market or fixed income investments. If sell signal is still in effect 12 months after initiation, the portfolios will be moved to a minimum of 75% “safe” investments.

Buena Vista Investment Management also uses a second longer-term buy/sell indicator, the Leuthold Major Trend Index, in conjunction with our own proprietary discipline to determine portfolio allocations. The Leuthold Major Trend Index was created by the Leuthold Group, an independent research firm located in Minneapolis. It has 40 years of actual history and we believe it will play a very important role in determining portfolio allocations. If both our Conservative Buy/Sell discipline and the Leuthold Major Trend index issued corroborating sell signals, then the percentage allocation to money market investments could be accelerated.

Right now the Leuthold Major Trend Index is still “bullish” and the Buena Vista Investment Management Conservative Buy/Sell Discipline is clinging to its current buy signal. So we remain fully invested! **We continue to believe that once we get by the Presidential election the markets will more fully recognize that the economy is in good shape and Corporate America is healthy.** We anticipate that oil prices will decline over the next six months and with a good Christmas shopping season the stock market should respond in a positive manner.

John L. Moffat

TOTAL RETURN MUTUAL FUND STRATEGY

Collaboration Brings About Important Changes

By John Moffat

In September we made a number of unique changes to our Total Return mutual fund portfolio strategy. The changes that have been implemented are a direct result of the collaboration between Joel Sullivan and myself, after Joel merged his practice with Buena Vista in April 2003.

The objective of the Total Return portfolio strategy is to produce returns that are in excess of the S&P 500 stock index. The broadly diversified portfolio includes U.S. mutual funds investing in large, mid and small companies, international equity funds and specialized asset allocation funds.

There are currently 8 funds in the portfolio. All eight funds were selected after meeting the six components of our strict quantitative selection process. In addition, the funds were selected based seven qualitative factors which provide this portfolio with unique risk/reward characteristics.

Based on our research, we have implemented two very important portfolio strategy changes, which should better position the portfolio to beat the S&P 500 in future years.

- ❖ Three of the eight funds held in the portfolio will receive the designation of “portfolio driver”. These funds will be overweighted in the portfolio and represent 15% of the portfolio assets versus 10% for the other funds. The “portfolio drivers” will be selected based on consistent returns in both “up” and “down” markets, long-term manager tenure and very sound risk/reward profiles.
- ❖ Additionally, there will be an annual “Manager’s Choice” allocation of 5%, which will go to one fund chosen by Buena Vista based on current market conditions. This choice can be a specific country fund, a sector fund, a metals fund or any other choice made by the Buena Vista strategy manager.

The three “portfolio drivers” are Oakmark Equity Income, Janus MidCap Value and Mathews Asian Growth and Income. All three will receive a 15% allocation based on their ability to provide exceptional returns to their shareholders without taking undue risk.

For the balance of 2004 and 2005 the 5% “Manager’s Choice” allocation is made to the Matthews China Fund. China is an area of the world which we think offers exceptional reward for investors.

ROYCE TOTAL RETURN and ARIEL FUND

By Joel Sullivan

In September we sold out all holdings of the Royce Total Return fund. The Royce fund was not sold because we were unhappy with performance. Rather it was removed based on the fact that Royce decided not to continue on the Schwab One platform. This platform allows Buena Vista to access over 3,000 funds at no charge. Rather than incur transaction charges for our clients, we decided to replace Royce Total Return with the Ariel fund. Both funds have similar risk and reward characteristics. Both funds are of similar size and invest in small companies. Finally, both have long tenured managers with great reputations for enhancing shareholder value. Ariel is also located in Chicago which in turn offers us better access to management. *We welcome the Ariel fund to Buena Vista Investment Management.*