



Views From The Heartland

Investment Perspective of Buena Vista Investment Management

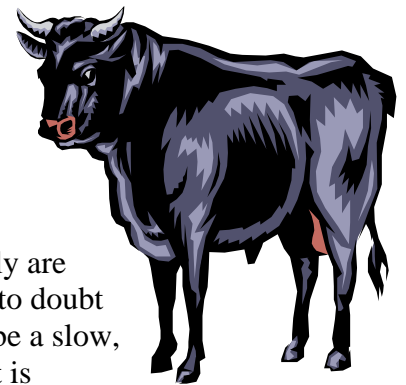
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BULL MARKET CLIMBS A “WALL OF WORRY”

Maintaining Invested Position & Bullish Outlook

By John Moffat and Joel Sullivan, Partners

On March 6th, 2009 the S&P 500 stock index hit an intraday low of 666.79. Since that day the S&P index has risen a staggering 58%, all with a backdrop of largely negative economic news and media experts that remain skeptical about this “bull” market and the potential for an economic recovery.



As any of you that have watched a business show or tuned in to CNBC lately are keenly aware, there are a large number of so-called “experts” that continue to doubt the sustainability of this bull market. We have also been told that this will be a slow, jobless recovery, or we will have a double dip recession or the stock market is headed for a 20% correction. We can only assume that these so-called “experts” have missed all or most of this year’s huge rally. In this issue we address these concerns.

First, will the stock market have a correction in October? Corrections in the stock market are a normal and healthy part of investing. At some point in time we will get a market correction. But trying to predict the exact timing of that correction can prove very difficult.

With all three of our major market indicators flashing a “buy” signal we remain comfortable with our invested position and intend to ride out any short-term market volatility. It is also important to note that in August the Leuthold Major Trend Index hit its highest level since 1998. The Coppock Guide, a very reliable “buy” indicator, is coming off its most oversold point since 1931.

A final point.... Normally, markets will retrace 50% of any of the previous gains or losses. A 50% retracement of our recent “bear” market losses would indicate that the S&P 500 index could reach 1121 in this move, a 6% gain from current levels. Our target remains 1100 for the S&P in 2009.

The second big issue of concern is that the economy is headed for a protracted slow jobless recovery. Will this be an “L” recovery or how about a “U” or even a “W” recovery. So many letters thrown at us, by so many experts, it all gets a little dizzying.

Fidelity Management & Research recently put out an excellent report detailing their views as to how this economic recovery might unfold. According to Fidelity, since World War II there have been four severe recessions, during which the US economy contracted by an average of 3%. The period 2007-2009 is certain to go on record as being the fifth severe recession. In each of the four previous cases, there was a robust period of growth during the first two quarters of the recovery, where growth averaged more than 6% and economic growth during the entire first year averaged more than 7%.

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BULL MARKET CLIMBS A “WALL OF WORRY” (continued)

In contrast, they point out that mild recessions produce mild recoveries. For example, in the mild recessions of 1990-91 and 2000, economic growth averaged only 2% in the first two quarters following the recession and 2.5% during the first full year of recovery. **As Fidelity points out; economic recessions that were more severe, produced subsequent recoveries that were stronger, as compared to mild recessions which normally produced mild recoveries.**

Most economists and the Federal Reserve Bank chairman believe that we are exiting a severe recession, but almost everyone feels that the growth will be tepid. A recent Wall Street Journal survey of economists showed that the average projection for economic growth is 2.3% during the next two quarters and 2.4% over the next year. These are growth rates that are normally aligned with historically mild recessions. **In other words, current expectations are that an extremely severe contraction will give way to a mild early-stage recovery, something that has not happened in the US in modern history.**

Fidelity makes one very important concluding point in their report and for that we would like to quote the report verbatim;

“One of the most difficult things to gauge as an investor is what expectations are reflected in security prices. It is, after all, the unexpected changes in economic and corporate data that move market prices. With most market participants expecting a weak economic recovery, it may be difficult for the US economic data to disappoint investors over the next few quarters. If the data is better than expected, positive ripple effects may do more to create a substantial economic recovery than is currently projected. This does not mean there are clear skies ahead; in fact, the medium-term macroeconomic and policy risks are real and create more uncertainty for the outlook than at the beginning of any economic recovery in modern history. But if past historical patterns are any guide, it is possible that current expectations for the early stages of the US recovery may be too low”.

In closing, it remains our opinion that the global economy will rebound faster than most anticipate. We are also of the opinion that the March lows in the US equity markets were generational lows. As we have written about in previous issues of this newsletter, the investment decisions made at the onset of a bull market are extremely important, as the largest percentage gains come during the first year of the new “bull” market. **For now, we remain fully invested and focused on making prudent decisions.**

LONG-TERM MARKET INDICATORS

Buena Vista Conservative Buy/Sell Discipline:	Buy (issued a “buy” signal in August 2009)
Leuthold Major Trend Index:	Buy (issued a “buy” signal in 2008)
Coppock Guide:	Buy (issued a “buy” signal in May 2009)
S&P 500 Stock Index:	1,057.08 (17.03% thru 09-30-09)
Wilshire 5000:	10,812.75 (18.99% thru 09-30-09)

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.

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