



Views From The Heartland

Investment Perspective of Buena Vista Investment Management

Volume 13 Issue 3
September 2015

Recent Market Uncertainty Creating Investment Opportunities Markets post worst quarterly performance in 4 years

The third quarter of 2015 was marked by a return of extreme volatility with the “bears” pushing stocks 11% lower during a 5-day period and wiping away all of the gains achieved during the first seven months of the year. Volatility reached an apex on August 25th with the Dow Jones Industrials index falling over 1,000 points in the first 90 minutes of trading. This pushed most market averages into official correction territory, the first since the time of the government shutdown in the fall of 2011.

In the third quarter, with the US equity markets in a six year “bull” market, investors adopted a sell first and ask questions later mindset as the memory of the bear markets of 2000-2002 and 2007-2009 are still very fresh in investors’ minds.

So where does all this volatility leave us as investors? Will this market correction turn into a new “bear” market or can investors expect a rebound? While there is no way to answer this question with 100% certainty, we can say that we do not believe the current environment warrants a full blown “bear” market. We say this because the world’s two largest economies, the United States and China, are growing and there are no major structural imbalances like we saw in 2000 and 2008.

While there is plethora of opinions as to why there is market weakness, we believe that uncertainty should be at the center of the discussion.

To say that there was a high level of uncertainty in the third quarter could be something of an understatement. We begin with the Federal Reserve’s reluctance to raise interest rates. This created uncertainty about US economic growth and raised more questions about when interest rates will finally be increased. Then there is China and the questions about its slowing economic growth and the central government’s ill-advised attempts to temper its stock markets and currency declines. On top of those two issues we had the commodity markets, especially energy and metals, dropping dramatically to lows not seen in many years. This in turn led to weakness in emerging equity markets, as these commodity dependent countries could see their GDP turn negative for the year due to falling oil and mineral prices. Finally, the PE multiple on US equities was above the long-term average, which led to many cries of overvaluation. With this “witches brew” of uncertainty, it’s no wonder that markets reacted the way they did. Equity markets do not like uncertainty and investors had a potful to deal with in the third quarter.

Here we are again talking about market corrections and “bear” markets in September and October, which history shows us are normally periods of high volatility and market weakness. Therefore, the question now is whether or not this market correction will morph into a new “bear” market or has the \$11 trillion in value erased from global equity markets over the last three months (according to Bloomberg.com) enough to create a new buying opportunity for investors.

Will this market correction turn into a full blown bear market?

To help us answer that question we need to look at economic data from the United States and China. As most investors understand, the strength of the economy is the most important driver of equity markets, as most bear markets coincide with recessions. (OVER)

When one looks at the United States' economy we see several positive statistics. Third quarter GDP for the United States was 3.9%, unemployment is now down to 5.1%, and car sales and home sales have risen to 2008 levels. Manufacturing, industrial production and retail sales are all at or near record highs in the United States. We would also take the position that a recent decline in the price of oil is a net positive for the US economy and could result in an excellent upcoming holiday season for retailers. Finally, recent consumer confidence numbers were high enough to suggest that consumers have shrugged off the negative effects of the stock market declines and instead focused on lower gas prices and an improving labor market.

As we look outside the United States we turn first to China. There is no question that the Chinese economy has slowed over the last few years. We have seen economic growth decline from an annual rate of 10% - 12% down to projections of future growth between 4% - 7%. Although this lower growth rate has many negative ramifications for emerging countries, this lower number still represents one of the best GDP growth rates in the world. The European economy has posted nine consecutive quarters of economic growth and it is now seeing the strongest growth since 2007. And we can't forget about Japan, as its equity market is one of the world's better performing markets in 2015 and this could mean an economic revival in the world's third largest economy.

So while economic data is for the most part positive, we still have the government wildcard to deal with before we can feel good about the equity markets. As of this writing we don't know if we will see a government shutdown after December 11th or if Congress will do the right thing and pass the necessary spending legislation to keep the government operating.

Where does all this leave us as investors? All of the Buena Vista market indicators remain in negative territory as we end the quarter. Over the last few months we have raised money market allocations in portfolios to higher than normal levels, leaving us plenty of dry powder to add to existing investment positions or to initiate new ones.

Thus, Buena Vista is of the position that this is a healthy correction in an ongoing bull market. Traditionally, the September/October period of time is not good for investors and this has held true again in 2015. However, October is also the month that has seen many market bottoms. So as we progress through the month of October we may see additional downside for the market and will use any market pullbacks as a time to purchase good quality investments that are currently on sale.

BUENA VISTA INVESTMENT MANAGEMENT LLC LONG-TERM MARKET INDICATORS

Buena Vista Conservative Buy/Sell Discipline:	Negative (turned negative 8-2015)
Leuthold Major Trend Index:	Negative (turned negative 8-2015)
InvesTech Negative Leadership Composite:	Negative (turned negative 7-2015)
S&P 500 Stock Index:	1,920.03 (-6.74% thru 9-30-15)
Dow Jones Total Market Index:	19,959.31 (-6.84% thru 9-30-15)

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>



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.

September 25, 2015

Leuthold Major Trend Index

Negative 0.74 (as of September 18th)

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

Negative

Selling Vacuum +0

Bearish Distribution -100

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

Negative

0 S&P POINTS / 0% 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
September 25, 2015	0.74 Negative	+0/-100 Negative	0 points / 0% Negative
September 18, 2015	0.74 Negative	+0/-100 Negative	0 points / 0% Negative
September 11, 2015	0.74 Negative	+0/-100 Negative	0 points / 0% Negative
September 4, 2015	0.76 Negative	+0/-100 Negative	0 points / 0% Negative
August 28, 2015	0.68 Negative	+0/-100 Negative	0 points / 0% Negative
August 21, 2015	0.67 Negative	+0/-100 Negative	0 points / 0% Negative
August 14, 2015	0.88 Negative	+0/-100 Negative	53 points / 2.53% To Sell
August 7, 2015	0.90 Negative	+0/-100 Negative	42 points / 2.02% To Sell
July 31, 2015	0.96 Neutral	+0/-100 Negative	71 points / 3.37% To Sell
July 24, 2015	0.95 Neutral	+1/-82 Negative	51 points / 2.45% To Sell
July 17, 2015	0.98 Neutral	+1/-44 Negative	97 points / 4.57% To Sell
July 10, 2015	1.00 Neutral	+4/-46 Negative	55 points / 2.64% To Sell
July 2, 2015	1.01 Neutral	+6/-23 Negative	58 points / 2.79% To Sell
June 26, 2015	1.07 Bullish	+6/0 Neutral	85 points / 4.04% To Sell
June 19, 2015	1.11 Bullish	+7/0 Neutral	105 points / 4.96% To Sell
June 12, 2015	1.07 Bullish	+8/0 Neutral	87 points / 4.15% To Sell
June 5, 2015	1.10 Bullish	+10/0 Neutral	89 points / 4.25% To Sell
May 29, 2015	1.08 Bullish	+10/0 Neutral	108 points / 5.12% To Sell
May 22, 2015	1.11 Bullish	+10/0 Neutral	130 points / 6.11% To Sell
May 15, 2015	1.13 Bullish	+12/0 Neutral	130 points / 6.12% To Sell
May 7, 2015	1.16 Bullish	+14/0 Neutral	125 points / 5.96% To Sell
May 1, 2015	1.16 Bullish	+15/0 Neutral	125 points / 5.92% To Sell
April 24, 2015	1.20 Bullish	+13/0 Neutral	140 points / 6.51% To Sell
April 17, 2015	1.13 Bullish	+14/0 Neutral	107 points / 5.14% To Sell
April 10, 2015	1.09 Bullish	+9/0 Neutral	134 points / 6.37% To Sell
April 3, 2015	1.09 Bullish	+7/0 Neutral	115 points / 5.25% To Sell

EURO AREA GDP GROWTH RATE



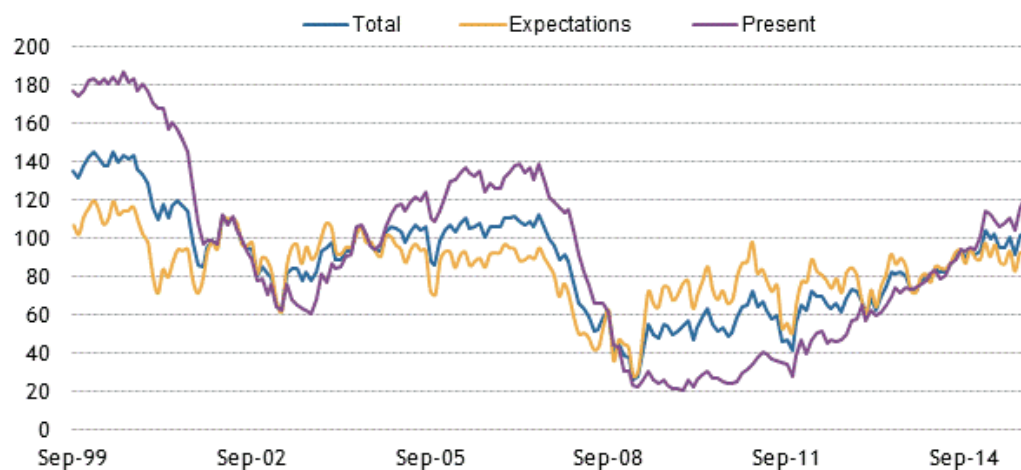
SOURCE: WWW.TRADINGECONOMICS.COM | EUROSTAT

JAPAN GDP GROWTH RATE



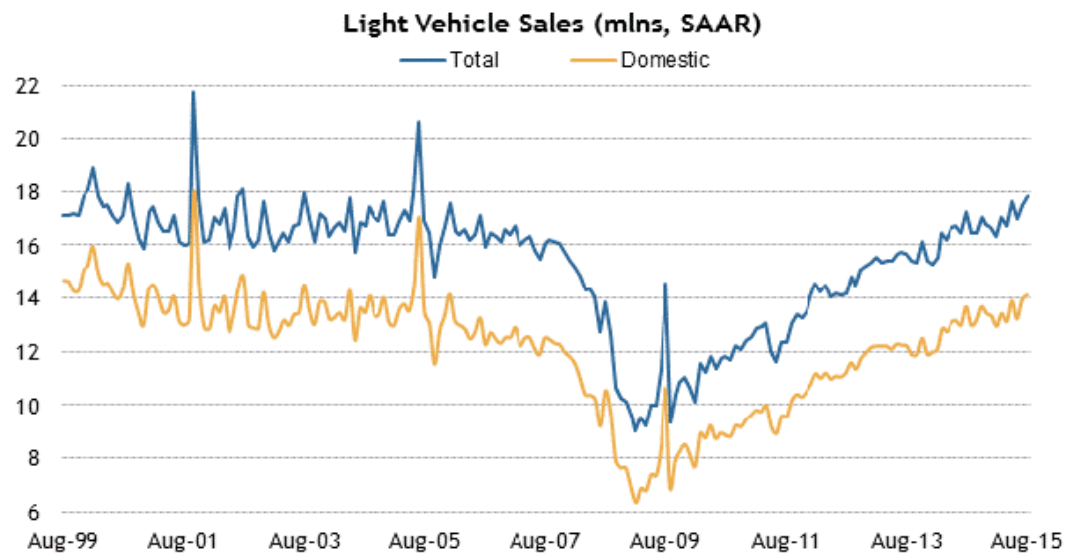
SOURCE: WWW.TRADINGECONOMICS.COM | CABINET OFFICE, JAPAN

Consumer Confidence



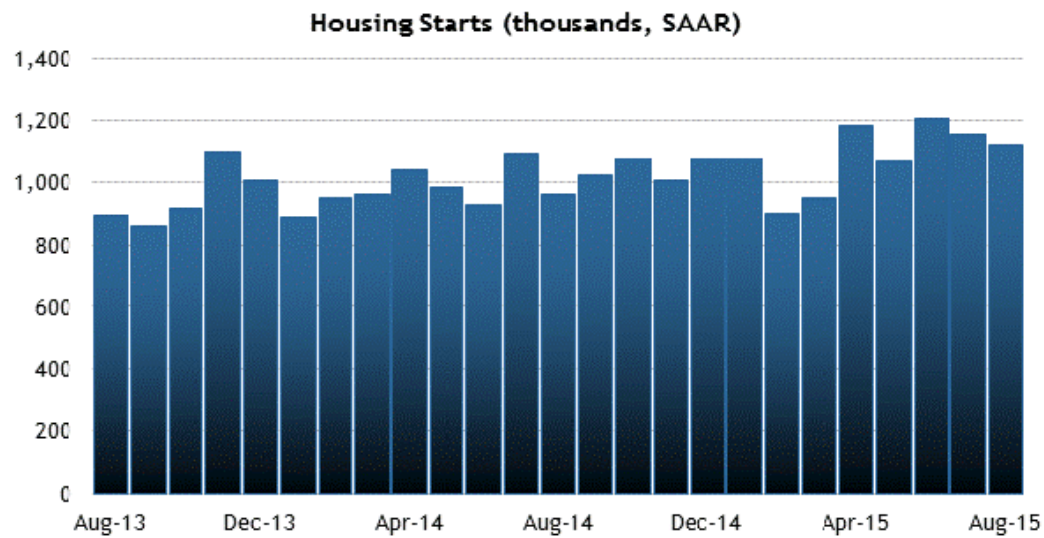
Source: Conference Board; updated 09/29/15

Briefing.com



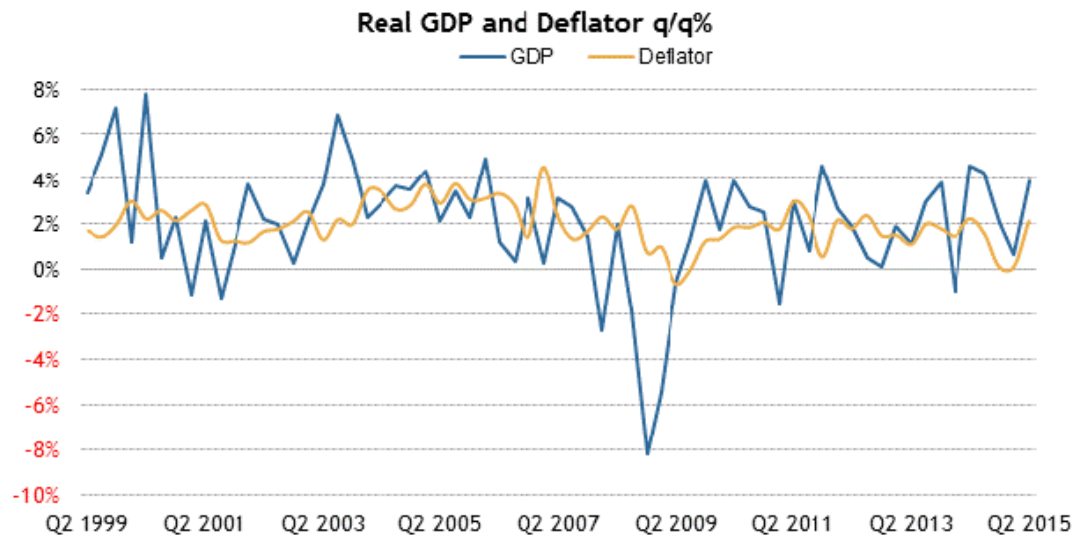
Source: Commerce Dept; updated 09/02/15

Briefing.com



Source: Census Bureau; updated 09/17/15

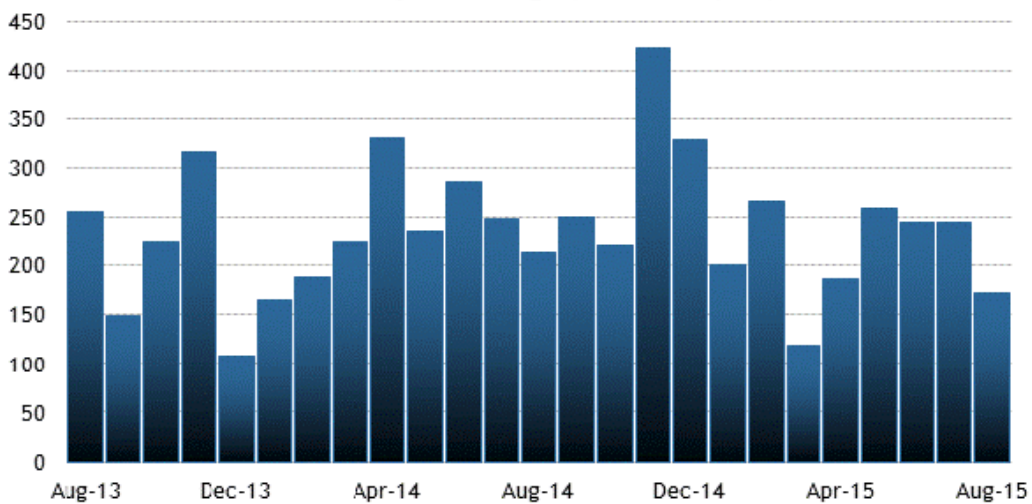
Briefing.com



Source: Bureau of Economic Analysis; updated 09/25/15

Briefing.com

Nonfarm Payroll Change (Thousands, SA)



Source: Bureau of Labor Statistics; updated 09/04/15

Briefing.com