Christian Values Investing Inc.
“serving morally responsible investors”
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MARKET

2008 will go down in history as a year in which our financial system was tested like no other time since the Great Depression. Consumer confidence fell to an all-time low by the end of the year. The fall in confidence reflects the rapid and steep deterioration of our economic conditions that occurred in the fourth quarter of 2008. These conditions include: rapid job losses, a bank credit crunch, a plunge in home values, a weak dollar and a bearish stock market.

Most economists believe the economic outlook will remain dismal for the first half of 2009, and they only expect a modest recovery in the second half of the year.

If you've been reading our market letter faithfully, you know that we've been pretty pessimistic about the economy and the stock market for all of 2008. Right now we are in a bear market which means that the market is down more than 20% from it’s previous high. Since 1942, the average bear market lasted about 10 months, from it’s highest point to it’s lowest, while about 35% of bear markets have lasted 1.5 to 1.8 years. After a bear market bottoms, rebounding is usually a volatile, sporadic process. If we assume this bear market began in the fall of 2007, it's currently about 14 months old. Four months older than the average bear market.

A year ago around this time major financial institutions were fearful, but none had gone under. The Standard & Poor’s 500 index was up 3.53% for the year 2007 but was expected to excel in the coming presidential election year. Few thought that crude oil could sell for $148 a barrel. So much for the conventional wisdom! Investors will look back on 2008 as the worst year for the stock market since 1931. The **Dow Jones Industrial Average** and the **Standard & Poor's 500 Index** were down 34.7% and 39.3%, respectively. The **Nasdaq Composite Index**, established in 1971, was down 40.5%, its worst performance ever.

It now appears likely that we are in the middle of a prolonged recession. Since 1945 the average recession lasted only 11 months. Economists are now talking about a recession that could last up to 18 months. According to The National Bureau of Economic Research, the U.S. economy slipped into a recession in December of 2007. If the economists are right, we could have virtually no economic growth for the next six months. Even when the economy starts to turn around most people will feel that we are still in a downward slope. However, it is very important to realize that the public opinion has almost always been negative for quite some time after the market has turned around. It usually takes some time for everyone to realize that things are in fact getting better.

Bear markets usually come around about every five years. They are never comfortable, but we must learn how to deal with them. History has shown us that people that make disciplined choices in times like these (instead of emotional ones) will be rewarded.

The stock market has traditionally been viewed as an indicator or "predictor" of the economy. Many believe that large decreases in stock prices are reflective of a future recession, whereas large increases in stock prices suggest future economic growth. The stock market is perceived as being forward-looking, and current prices reflect the future earnings potential, or profitability, of corporations. Since stock prices reflect expectations about profitability, and profitability is directly linked to economic activity, fluctuations in stock prices are thought to lead the direction of the economy. If the economy is expected to enter into a recession, for example, the stock market will anticipate this by bidding down the prices of stocks. On the other hand, if stock prices are rising, investors are wealthier and spend more. As a result, the economy expands.

There is an exception to this view and it is called human behavior. Human behavior has caused stock prices to deviate from the "real" economy. Since investors do not always anticipate correctly, stock prices will sometimes increase before the economy enters into recession and decrease before the economy expands. As a result, the stock market will often mislead the direction of the economy. I wanted to mention this because human behavior may cause the stock market to react to the onslaught on company bankruptcies that are likely to take place in the first quarter of this year. Since the market is "forward looking" you would think that the market would have anticipated a large amount of company bankruptcies due to the ongoing steep recession. And the current price of the stock market would reflect the many companies going bankrupt this year. However, this may not be the case. Human behavior could possibly cause the market to retest its October lows during the first quarter of the year.

What does all this mean for those who are currently invested? If you follow the Biblical financial principle of being a long-term investor, you simply ride out the storm. However, if you have a short-term time horizon where you will absolutely have to have cash from your investments in the next twelve to thirty six months, you should give us a call to discuss what the best thing is in your specific situation. It is our firm conviction that, for those who are trying to accumulate wealth, this is an excellent opportunity to invest money. It would be wise for us to learn from the richest investor in the world, Warren Buffett. In 2008 he has invested billions in the stock market.

Most importantly, we must not be afraid of the things that are out of our control. God is always in control. He is not surprised by what is happening. Galatians 5:22-23 says that "The fruit of the Spirit is love, joy, peace, patience, kindness, goodness, faithfulness, gentleness and self control." As those who follow Christ now is an excellent opportunity to be an example of what peace, patience, and self control look like. We must not be scared, impatient, or reckless. In the end we will benefit and those around us will as well.

MODEL PORTFOLIOS

Even though our models were in a large cash position for over half the year, our Christian models finished the year about even with the index’s they are compared against. We believe this happened because even superior growth companies that held up fairly well during the early stages of the bear market finally started to receive heavy selling pressure, causing them to decline in value and catch up with the general market. We are disappointed we did not do a better job of protecting our clients from the decline but are confident that we will see the blessing of the Lord in due course.

One of our biggest let downs of 2008 in our model portfolios was our positions in Real Estate Investment Trusts (REITs). We hold REITS in four of our six model portfolios. During the past ten years REITs acted almost like a hedge against a falling stock market. Equity REITs are one of best performing equity asset classes over the past ten years; having an annual return of 7.73%. This annual return includes the crash of 2008. This compares to a negative (-1.38%) return for the S&P 500 for the same period. However, like everything else, 2008 was a disappointment for REITs. The REIT index was up 2% until the end of the third quarter, but during the fourth quarter the index had a massive sell-off. The DJ equity REIT index ended 2008 being down 40%; it was its worst year on record. The credit crunch was the main reason for the sell-off.

A recovery in 2009 for REITS will depend on when the debt markets open up again and how deep the recession will become. On a positive note, with all the pessimism floating around REIT’s whose shares were hardest hit in 2008 will be poised for a big recovery if debt becomes available faster than expected.

Do to the magnitude of this bear market, sometime this year we will be rolling out a new model portfolio that will fall into a capital preservation category. This portfolio will be named the “Trust Portfolio” because it will be suitable for investors whose primary goal is preservation of capital. This portfolio will seek capital preservation as well as the opportunity for income and growth. The portfolio’s chief aim is to preserve capital above investment return. This portfolio will be suitable for Trust accounts and individual investors who’s first desire is to preserve capital with some emphasis on growth and income.

CONCLUSION

2008 was a terrible year for investors. We believe 2009 will continue to be volatile. We believe the market will start to turn upward by the middle of the year. The Federal Reserve has been aggressive and will remain aggressive to keep the economy on sure footing.

As stated in our previous Market Letters, we continue to believe the past presidential election will be a positive for the stock market. Most of Presidential elect Obama's recent statements about the economy gives us the impression that he will promote clean energy, infrastructure and education. If so, stocks in those sectors should benefit. We know health care is going to be impacted. It's too early to tell if it will be a positive or negative impact. Previous attempts to socialize medicine were met with health care stocks declining. If the market continues to follow historical patterns, then 2009 should be a strong year for the market. After a decline like we had in 2008, we believe it is most important to select those sectors that usually generate the highest returns during a recovery. It is easier and more predictable to pick those sectors than to guess what President elect Obama is actually going to do. The stock market tends to recover three to four months before the recession ends. Unless this recession is longer than the top two in U.S. history (1929-1933:43 months or 1910-1912: 24 months), the recovery should take place sometime this year.

Following previous recessions, the strongest sectors (in order of strength) were Consumer Discretionary, Information Technology, Financials, Industrials, Materials and Consumer Staples. The weakest sectors (in order of weakness) were Utilities, Telecomm, Energy and Health Care. We will position our model portfolios in the sectors mentioned above to capitalize on areas of the market that historically recover the fastest.

We at Christian Values continue to be grateful for the opportunity to serve your investment & financial planning needs. Please do not hesitate to contact us if you have any questions or if we can be of any assistance. Also, a current copy of our ADV is available upon request.

BIBLICALLY RESPONSIBLE INVESTING (BRI)

Christian Values Investing (CVI), founded in 1993, is a leader in the field of investing with a Christian perspective, known as Biblically Responsible Investing (BRI). *By employing a BRI approach to investing, Christian Values seeks to achieve long-term capital gains through ownership in securities of companies that are a blessing to mankind. Conversely, we seek to avoid profiting from owning companies engaged in sinful activities that bring physical and* *spiritual loss to our fellow man. Our heart's desire is to do no harm to our fellow man in the process of being the best possible guardians of the wealth the Lord has given us stewardship over.* The Bible is the word of God and a manual for living. Many people would be surprised to know that in the Bible there are over 2,000 references to money and possessions. God cares about what we do with that which he has entrusted to us. At Christian Values, we are committed to invest in a way that honors God.

Below are just some of the issues of concern to Christian Values Investing and the specific sinful activities that fall into each category:

1. We desire ***justice and mercy for the defenseless*** so we screen out companies involved in:
• Abortion
• Life destroying or distorting scientific research
• Human rights issues such as religious persecution, terrorism and political oppression
2. We desire ***justice and mercy for the poor*** so we screen out companies involved in:
• Greed-based marketing techniques
• Discrimination and unjust labor practices
• Any abuses of the poor, children and/or the elderly
3. We have *compassion for those addicted and/or engaged in sinful lifestyles* so we screen out companies involved in:
• Alcohol, Gambling and Tobacco
• Pornography
• Homosexuality
4. We want to ***protect marriage and the family*** so we screen out companies involved in:
• Entertainment that seeks to destroy biblically-based attitudes
• Efforts to promote lifestyles the Bible indicates are sinful

Additionally, we favor companies that clearly embrace:
• Honesty, Compassion, Diligence, Prudence and Creativity
• Support for quality products at fair prices and constructive stakeholder relations
• Support for a sustainable and healthy environment
• Support for charitable giving
• Support for the Jewish people and the state of Israel

Armed with this information, we are then prepared to make as strong an effort as possible to build investment portfolios that reflect our client's biblically-based Christian worldview.

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