



## Christian Values Investing Inc.

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### MARKET

The Dow Jones industrials finished the year sporting a 5.5% gain. The Nasdaq Composite Index closed down about 1.8%. And, amazingly, the Standard & Poor's 500 Index ended almost exactly flat. The numbers hide the fact that it was a very volatile year. The Dow hit 12,810.50 on April 29<sup>th</sup>; its closing high for 2011. It bottomed on Oct. 3<sup>rd</sup> at 10,655.30, a 16.8% decline. Then it started to rise again as the Federal Reserve said it would keep rates low. As evidence emerged that the U.S. economy wasn't falling apart and Europe began to start getting its debt crisis under control the market picked back during the fourth quarter.

Throughout the year, the market had to absorb the effects of the Arab spring, the Japanese earthquake in March, a continued weak U.S. real estate market, a downgrade of U.S. debt in August, massive flooding in Thailand that hurt technology manufacturers and the constant worries about how Europe might solve its debt crisis.

Even with all the turmoil, Gold closed at \$1566.80, up 10.2% for the year but struggled the last quarter of the year. In addition, Silver was down 11.7% on the year, following an 83% gain in 2010 and a 22.5% gain in the first quarter. Copper was down 24% for the year. Silver prices reflect that it's a precious metal, but it also has many industrial uses. Copper is perhaps the most important industrial metal.

In the currency market, the Australian dollar and the Japanese Yen gained between 3 to 4% respectively. The euro ended the year with around a 2.75% loss compared to the U.S. dollar.

In 2011, defense beat offense. In U.S. industry sectors, the ever dull utilities gained 14.8% and easily outperformed sexier sectors like technology and energy stocks. Other defensive oriented industry sectors, like consumer staples and healthcare stocks posted double digit gains between 10 to 11%. The worst performing S&P 500 sector for the year was financial, which cratered almost 19% in value.

Oil prices ended 2011 up 13 percent; the third straight year of gains. Brent crude closed the year at \$107.38 per barrel while U.S. crude closed the year at \$98.83 a barrel.

Looking forward in 2012, the market faces more European financial problems, threats by Iran to block the Persian Gulf, and the potential of a loud and brutal U.S. election cycle.



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### **PERSONAL MESSAGE**

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*Some trust in chariots, and some in horses; But we will remember the name of the Lord our God*  
Psalm 20:7.

As we usher in another year, I recall a question a reporter asked Benjamin Franklin as he emerged from the Continental Convention that was forming the structure of America's government. "What kind of government have you given us?" asked the reporter. Franklin's response was "a republic if you can keep it."

That statement was made more than two hundred years ago and history shows that the cycle of national dominance usually expires in about that period of time. Where are we in the cycle of nations?

The historical cycle seems to be: From bondage to spiritual faith; from spiritual faith to courage; from courage to liberty; from liberty to abundance; from abundance to selfishness; from selfishness to apathy; from apathy to dependency; and from dependency back to bondage once more.

At the stage between apathy and dependency, men always turn in fear to economic and political panaceas. New conditions, it is claimed, require new remedies. Under such circumstances, the competent citizen is certainly not a fool if he insists upon using the compass of history when forced to sail uncharted seas.

As we usher in 2012 we are in worldwide economic chaos, fighting wars we cannot win against enemies we cannot identify. In our country, more people are getting from rather than contributing to the revenue stream that powers democracy. The world is encased in a turmoil never before known in history.

Where can we place our trust and faith in the New Year? Certainly not in men nor in nations, as both will disappoint us. Certainly not in the economy, as it is in shambles as the corporate, national and personal debt is one we can never hope to repay. Certainly not in military might, as we are vulnerable to a defense that could lead to world annihilation.



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In this coming year, the only safe place to put our trust is in God. *"Blessed are all those who put their trust in Him"* (Psalm 2:12). *"Oh, taste and see that the Lord is good; Blessed is the man who trusts in Him!"* (Psalm 34:8).

The New Year is always full of resolutions. Let this one be yours from Psalms (18:2) *"The Lord is my rock and my fortress and my deliverer; My God, my strength, in whom I will trust; My shield and the horn of my salvation, my stronghold"*

Put your trust in God! For where your treasure is, there you'll find your heart. Put your trust in him! He won't let you down. God is our hope, so put your life in his hands. May this be our resolution for the New Year.

### MODEL PORTFOLIOS

Even though our models were outpacing the market by a wide margin during the first three quarters of 2011, our models finished the year about even with the index's they are compared against. We believe this happened because some growth companies that outpaced the market during the first three quarters of 2011 finally started to receive heavy selling pressure.

The fourth quarter of the year we witnessed a significant gap between the performance of growth and value stocks. In the last three months, comparing the relative performance of the Russell 3000 Growth and Value Indices, growth has outperformed value by 200 basis points (2 percent). We believe Growth companies will continue to outperform value Stocks during 2012.

As stated earlier, In 2011, utilities and consumer staples have been the top performing sectors in the S&P 500. This should reverse as oil prices and interest rates rise. In contrast, financials have been the worst performing sector followed by materials and industrials.

### CONCLUSION

Financial professionals love to make predictions, whether about the movements of the stock market, the direction of interest rates, or the upcoming direction of the economy. Pick up the Wall Street Journal or browse the Internet on any given day, and you'll immediately encounter a mass of predictions -- so many, in fact, that you probably don't even notice them.

When it comes to predictions, there are no crystal balls and no silver bullets. Since then, the best avenue to take to be successful investors is to develop a plan that doesn't depend upon making predictions. For example, we probably can't predict the timing and nature of the next financial



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crisis, the next political revolution, or the next technology trend. So rather than wasting our breath forecasting the future, we should instead devote our energies to making financial and investment plans that can work under a variety of scenarios. Finally, your approach to planning should move away from plans that revolve around predictions and instead embrace those that react very quickly to what is happening in the present.

Our first-phase plan for 2012 is to maintain most of our positions. The major tactical adjustment to our investing plan will be to harvest cash through 2012 and NOT deploy it back into the market until the bargains are too compelling to pass up. This plan to start harvesting cash could start immediately or could be delayed to the latter part of the year. It depends on the direction of the market and the investment environment.

Pensions & Investment Magazine Online proclaims that many institutional investment strategists believe the S&P 500 generally will return more than 10% in 2012, even though they expect the U.S. economic growth rate to be slow and unemployment to remain high. The same strategist believe Treasury returns will plunge as the economy strengthens and investors take on more risk and move away from the safe haven.

Likewise, we believe Europe will continue to be the focus of investors' attention in 2012, with elections possibly changing the political landscape on the continent. The uncertainty is going to stay and people are going to remain nervous. We should see some resolution to this uncertainty, but until that happens the markets will remain volatile because of Europe. 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



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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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