

Christian Values Investing Inc.

"serving morally responsible investors"

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MARKET

At the beginning of 2012, if you would have looked into a crystal ball and correctly predicted what was going to happen during the year - US economic growth at stall speed, an intensifying European debt crisis, a slowdown in China, fiscal deadlock in Washington, decelerating corporate earnings growth - and asked investors how the stock market would perform, few would have predicted a good year.

In contrast to traditional thought, U.S. stocks closed out 2012 up 13.4 percent for the year, compared with a flat performance in 2011. The Dow rose 7.3 percent in 2012 and the Nasdaq climbed 15.9 percent.

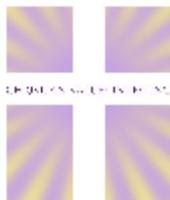
2012 started with stocks on a rising note. The S&P 500 advanced 12 per cent by the end of March, closing the quarter at 1,408, its highest in almost four years, with financial companies and technology firms leading the charge. The Dow ended the first quarter at 13,212, an 8 per cent gain, but investor optimism faded. The intensifying European debt crisis and concerns about its impact on global economic growth triggered a sell-off.

By midyear, stocks had given up the year's gains. The outlook for growth in China, the world's second-largest economy, began to weigh on investors' minds. The S&P dropped to 1,278 on June 1. The Dow fell as low as 12,101 on June 4.

During the third quarter of the year, investors started speculating that the Federal Reserve was set to provide the economy with more stimulus to prevent it from slipping back into recession. By the time US Fed Chairman, Ben Bernanke, announced a third round of quantitative easing on September 13, the S&P 500 had surged 14 per cent from its June 1 low. A day later, the index peaked at a five-year high of 1,466.

Gold finished up 6% for the year. It was the 12th straight year of gains for gold, making it one of the longest bull runs ever in a commodity. Traditionally an inflation hedge and a market that investors rush to in times of trouble, gold has lately behaved more like an industrial commodity - rising and falling with the stock market and sometimes even following the dollar.

Overall, 2012 was a good year for investors.



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PERSONAL MESSAGE

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"Each of you has been blessed with one (or more) of God's many wonderful gifts to be used in the service of others. So use your gift well. If you have the gift of speaking, preach God's message. If you have the gift of helping others, do it with the strength that God supplies. Everything should be done in a way that will bring honor to God because of Jesus Christ, who is glorious and powerful forever. Amen." 1 Peter 4:10-11 (CEV)

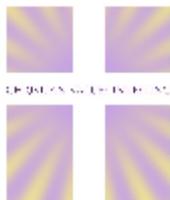
2013 is upon us! I've been thinking a lot about personal goals and what I want to change this year. A general question someone asked me years ago has stuck with me: "If I keep doing what I'm doing now, will I be where I want to in one year, five years or ten years?" I'll ask you the same in regards to your spiritual walk – if you keep doing what you are doing today, where will you be by the end of this year? In five years? In ten? Are there things that need adjustments? Are you using your God-given gifts to impact your world and make a difference?

As I think about my walk with Christ this year, three questions come to mind:

1. Are there any activities, books, seminars, or men's groups I could join that will teach me something new?
2. What one or two things can I do in 2013 that will make me be a better reflection of Christ?
3. Where does Christ want me to give special attention to in 2013?

- Physical
- Financial
- Intellectual
- Relational/Family
- Spiritual
- Professional

I know from past experience my chances of success go way up if any action step or goal is clear, makes it into my weekly schedule, and I have some form of accountability. I'd like to challenge each of us to pray through and answer each question above, then make goals that will be incorporated into our everyday life, and have some way to hold yourself accountable to them. Think about the things that could happen in and through you in 2013! Christ is waiting and ready to help you make a difference in your world this year!



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Lord, I want to reach new heights this year and I want to glorify You. Would You show me where you want my focus to be? Help me to choose well and to be a proper representation of You this year. Thank You for fresh beginnings. Amen.

MODEL PORTFOLIOS

During the first quarter of 2012 we took a defensive position in most of our models. Our first-phase plan for 2012 was to maintain most of our positions. The major tactical adjustment to our investing plan was to harvest cash through the year and NOT deploy it back into the market until the bargains were too compelling to pass up. This plan to start harvesting cash started early in 2012. We thought Quantitative Easing 3 would not happen because current market conditions did warrant more stimuli. The Federal Reserve thought otherwise.

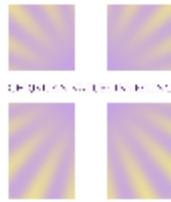
As the New Year rolls around, we believe that the market will continue to be volatile and buying opportunities could exist over the next few months. We were not attempting to call in a new bear market nor were we trying to predict if the economy is going back into a recession (even though some economists say it already has). What we are looking for is value in market.

We still believe the market will continue to be volatile but buying opportunities will exist over the next few months. From our previous market letters, you know we do not try to call market bottoms or tops, however, we do look for trend reversals. In our opinion, it looks like the market is still bullish.

Rebalancing and tweaking our models is a main priority for the quarter ahead, however: We will hold a large allocation in cash until we see value in the market. We will continue with this strategy until we see value.

CONCLUSION

Since my beginning in the investment industry, I've been watching the Fed. I've always paid attention to the old saying, "You don't fight the Fed," so it stands to reason when the Fed says they'll keep interest rates at zero well into 2015, you would expect rates to stay at or close to zero. One way to make money is to determine what is the federal government or the Federal



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Reserve "mission" and bet "with" the mission. That is, find out what these people are trying to do and develop an investment strategy that "uses" this mission.

We thought Quantitative Easing 3 or QE-Infinity would not happen basically due to the fact that we were not in a period of market tension. The major different between this round of QE and the previous two rounds is the previous two major rounds of large scale asset purchases were announced or implied during periods of extreme market volatility.

In 2012, we were early by going into a larger than normal cash position, believing QE 3 would not happen. If you are too early, you are wrong. Also, if you try and get into the game too late or stick around the game for too long, you will be wrong. Timing is very important.

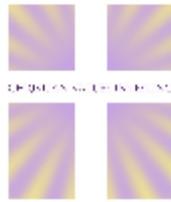
With QE3, the US Federal Reserve has taken the last resort to stimulate the economy. If this action does not arouse the economy by increasing the money supply, we could be in deep trouble.

We believe that 2013 will favor a volatile first half of the year and a stronger second half. Currently, it's not clear if the market can move much higher. Stock-price gains of 10% are hard to justify if the economy is growing at 2% to 3% a year. 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:



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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

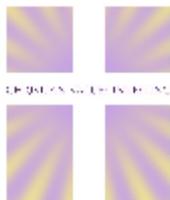
Armed with this information, we are then prepared to make as strong an effort as possible to build investment portfolios that reflect our client's biblically-based Christian worldview.

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