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MARKET

How good was the 2013 stock market rally?

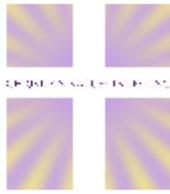
So good that it was hard to find a stock market around the world that showed a loss on the year, which may be why there's concern the rally was just too big. The Dow Jones industrials was up 26.5 percent, its best gain since 1995. The Standard & Poor's 500 Index was up 29.6 percent, its best gain since 1997. And the Nasdaq Composite Index was up 38.3 percent; the best year since a 43.9 percent gain in 2009. All the major averages showed big gains and they never retreated back to their 2012 closes.

The worst performing S&P 500 stock was Newmont Mining (NEM), which sank 50%. The gold mining company was hit by the bursting of a bubble in the gold market. . Gold prices in December fell below \$1,200 an ounce and it hit its lowest levels since 2010. Gold has tumbled nearly 30% in 2013, their biggest drop since 1981 and the first annual decline for the precious metal since 2000. Much of the money fleeing the gold market may have found its way into stocks

Investors put \$348.63 billion into stock-based mutual funds and exchange traded funds in 2013, according to data from TrimTabs. That's the largest ever annual inflow and comes after several years of investors pulling money out of these funds. While investors were sprinting towards the stock market, they were running away from bonds. \$72 billion was pulled from bond mutual funds in 2013. It is the first time in nearly a decade that investors have taken more money out of bond funds than they've put in. The previous record from 1994 was when investors withdrew almost \$63 billion.

Now what? Is the question that is on every investor's mind. The Dow Jones industrials hit new highs in 2013 and Federal Reserve chairman Ben Bernanke retired. Everyone had been on edge for months about the possibility of rising interest rates and when the Federal Reserve might slow its economic stimulus. A pullback in the Fed's bond purchases, they feared, could jack up interest rates and send stocks reeling. Bernanke's mere mention of the possibility in June had sent stocks tumbling. Previously the Fed's plan was to consider raising short-term rates once unemployment reaches 6.5 percent from the current 7 percent. The Fed now says it expects to keep its key short-term rate near zero "well past" the time that unemployment falls below 6.5 percent.

Amidst the fanfare and euphoria of mid-December's post-taper rally, which took stocks to fresh new record highs, another more subtle change was taking place. Without saying it, Wall Street's celebration marked the end of the insane bad-is-good era. Specifically, traders have finally embraced the fact that good news is actually just that. While it will be buying fewer bonds, the Fed also stressed that short-term interest rates will remain exceptionally low even after the



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unemployment rate falls to 6.5%. Investors took that as a sign the Fed will continue to flood the market with liquidity for years to come.

PERSONAL MESSAGE

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Don't Fly Solo

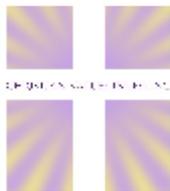
"Live in me and I will live in you. A branch cannot produce any fruit by itself. It has to stay attached to the vine. In the same way you cannot produce fruit unless you live in me." John 15:4 (God's Word Translation)

It has been said that life is all about relationships. How true! When I was in business, my success depended on my relationships with clients. When I was in political office, what got me re-elected was my relationships with voters.

Relationship is one of God's highest priorities. Our eternal destination is dependent on our relationship with Jesus, and we are to live out our faith in Him through our earthly relationships.

The captain of a commercial aircraft needs a crew, as he cannot fly in isolation. He needs assistance on board and on the ground to get him from wheels up to touchdown. We too need others to join us in our Christian walk. It is difficult to grow spiritually in isolation. We need the encouragement and teaching of others and we need accountability in our walk.

Jesus says that being spiritually connected is like being attached to a vine. You're not going to have any fruitfulness or productivity if you're out there on your own. If you haven't seen very much spiritual growth in your life lately, could it be that you've allowed other priorities to weaken your connection to Jesus and the body of Christ?



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Lord God, thank You for grafting us in to Jesus, Your son. Help me focus and depend on Him as the true vine so I may produce more and more fruit. Show me how I can experience deeper community with other Christians. Amen.

Take Action

We need mentors to challenge us and we also need to encourage others. Think of the people you've allowed to speak into your life, and also think of the lives you are trying to speak in to. Consider connecting with someone soon who inspires you to go deeper with God. Also consider connecting with someone you could encourage spiritually.

MODEL PORTFOLIOS

Our growth models had a bad year compared to the market. We were positive for the year, but well behind the benchmarks. The reason, we took a defensive stance in April by going to a 90% cash position.

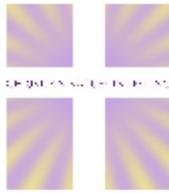
Over the last ten years, we have managed money using strategies that we believe would earn better risk-adjusted returns than a passive, buy and hold strategy. Up till 2013, these strategies worked pretty well.

In late December, We started getting back invested. At the time of this letter we are currently about 70% invested. As the market pulls back in the coming months, we will get back into a fully invested position.

In 2014, we believe diversification and asset allocation will be key to above average returns. With that in mind, we think it's important to review a few things about investing and diversification.

Realize that portfolios that are diversified usually have an asset that is a total dog. In 2013, it was gold. In other years it was stocks or it was bonds. In 2014 who knows.

An alternative is to have a portfolio where everything is going up at the same time. This works well until the assets all decide to go down together.



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The strategy that has the highest probability for client success is a simple buy, hold and rebalance asset allocation strategy. A portfolio holding good quality companies that is diversified based on a person's long-term needs, and rebalanced when the allocation drifts meaningfully off its target, is the right solution for most investors.

CONCLUSION

Looking at history, great years in the stock market are typically followed by pretty good years, not soul-crushing, bone-grinding bear markets. According to Standard and Poor's, years that have seen a gain of 20% or more see a gain the following year 78% of the time. And that gain is typically about 10%. Not as good as the previous year, but still a pretty good year.

So a big gain in one year doesn't spell doom for the following year. Now, there are plenty of other events that can impact the market. However, we do not foresee any of those in the near future.

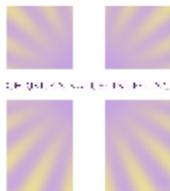
We believe the S&P 500 could increase another 8% in 2014. Nothing wrong with an 8% year, particularly when the 10-year Treasury bond yields 2.85% and the average money market fund yields 0.01%.

Like we stated in October, long-term, we believe being out of the market is more risky than staying in the market.

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



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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

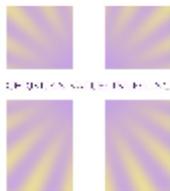
Additionally, we favor companies that clearly embrace:

- 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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