

Christian Values Investing Inc.

"serving morally responsible investors"

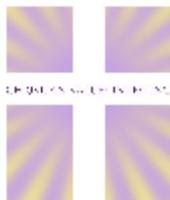
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MARKET

The Dow Jones Industrial Index finished with just under a 1,000-point gain for the first three months of 2012, rising 8.15% to 13,212. The S&P 500 rose 12% during Q1 while the Nasdaq Composite Index added 18.6% (Nasdaq's biggest increase since 1991). Here are a few things to note: this was the best quarterly gain for stocks in nearly fifteen years. Coincidentally, stocks have risen for six months in a row. This is despite economic data that has generally underperformed expectations of late and a European debt crisis which actually seems to be getting worse in the wake of Greece's restructuring. Bad news that usually would have sent the market spiraling down seemed to have little or no effect.

The 12% return of the S&P 500 in the first quarter of 2012 was notable for both its magnitude and breadth. Only eight times in the past fifty-five years has the S&P 500 begun with better starts than 2012. All eight of those years posted positive full year returns; although the October 1987 stock market crash significantly limited gains in that year. The average return over the last three quarters of years that have started better than 2012 was 7.22%. No year that has begun with a first quarter return of greater than 2.4% has produced a full year loss. See the chart below.

	1Q Return	2Q-4Q Return	Full Year Return
1975	22.90%	11.41%	36.92%
1987	21.32%	-12.91%	5.67%
1976	14.96%	7.55%	23.64%
1991	14.47%	13.57%	30.00%
1986	14.04%	3.94%	18.54%
1998	13.92%	12.66%	28.34%
1967	13.17%	9.33%	23.73%
1961	12.79%	12.25%	26.60%
2012	12.00%		????
Average	15.95%	7.22%	24.18%



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If history repeats itself, 2012 could be a very good year for the stock market.

The gold and silver markets both closed out an impressive first quarter with gains of 6.5 percent and 15.9 percent, respectively. Among other commodities, crude-oil futures ended the quarter with gains of 4.2%. Oil for May delivery settled at \$103.02 a barrel on the New York Mercantile Exchange. The quarterly advance follows a 25% increase in the fourth quarter of 2011, and gains of 8.2% for 2011. In addition, gasoline futures jumped 26% in the quarter; in the other extreme, natural-gas futures lost 29% in the three-month period.

PERSONAL MESSAGE

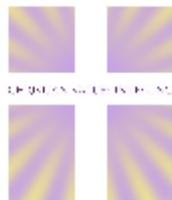
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"A man with leprosy came to him and begged him on his knees, "If you are willing, you can make me clean." Filled with compassion, Jesus reached out his hand and touched the man. "I am willing," he said. "Be clean!" Immediately the leprosy left him and he was cured. Jesus sent him away at once with a strong warning: "See that you don't tell this to anyone. But go, show yourself to the priest and offer the sacrifices that Moses commanded for your cleansing, as a testimony to them." Mark 1:40-44

This account of Jesus healing the leper early in his earthy ministry is peculiar. It runs against the grain that anyone new in town with an agenda to make a difference would tell people he helped to stay mum about it. Can you image politicians running for office cautioning people in their riding "Now be careful! Don't tell others what I've done for you to make your life better!" It just doesn't make sense.

Well, yes and no. Have you ever had a secret you wanted to keep for a while for strategic reasons? When my wife and I became pregnant with our first child, we were ecstatic. We wanted to tell the world, but we didn't. We knew that some babies don't make it past the first twelve weeks, so we didn't tell the world. We called her folks and mine, her sister and my siblings. After two more months, we told others. Timing was key.

Jesus did similarly with regard to his identity as the Messiah—the Savior of the world. He did not refer to himself as the Messiah when he began his ministry, rather, he called himself the Son



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of Man, another term for “human being” (as Ezekiel used the term) who had godly power and authority (as Daniel used the term). He knew his early 1st-century Jewish audience had distinct expectations associated with “Messiah”—such as military ruler, earthly king, and another high priest. He didn’t want to muddy the waters of his identity until they were more prepared for it, even though it was very good news. Yet later he did. Timing was key.

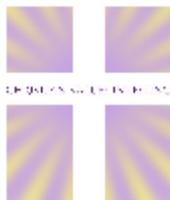
Sometimes we have good news that needs to be handled carefully. An acquaintance of mine had yearned for a new job on the west coast. He and his wife had discussed it, and he was sure she supported him in pursuing it. He applied, and a few weeks later received a phone call inviting him to a new and exciting role. In a flash he picked up the phone and called his wife who was busy at home with three kids. “I was offered the job! And accepted! We’re headed for British Columbia!” Not until he got home six hours later did he realize his wife had had a horrible time processing his bold declaration, with no discussion, and alone with three kids. She was a wreck and the two had to work through it. Years later he told me he wished he had handled that disclosure more carefully.

In all these instances it those with good news had a decision—to tell or not to tell, right away or later, while in tune or not to those they told. Without doubt good news is worth sharing, yet timing is key.

MODEL PORTFOLIOS

During the later part of January, we started reducing our exposure to equities. Currently, most of our portfolios are in a 20 to 25% cash position. Managing risk and volatility is a critical part of all of our investment strategies. Our primary method of controlling risk is through superior stock selection and moving to cash.

Like we stated in our previous market letter, 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. Our plan to start harvesting cash was initiated in January. Even though the direction of the market and the investment environment has been good over the past quarter, our desire was to position ourselves out of slower growing companies. This plan has been working. Even at 80% invested our growth portfolios have kept close pace with the S&P 500.



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CONCLUSION

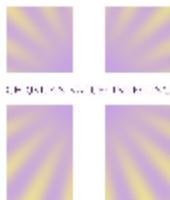
Seeking Alpha author John Cofran, wrote in his article *Looking Ahead To Q2: More Upside For U.S. Stocks Likely* that we can expect (based on historical examples) for the stock market advance to continue. As I have stated in previous market letters, none of us can predict the market's direction, but we can study the data, estimate the probabilities of various outcomes, and position appropriately. This, along with a sound risk management process is really the foundation of successful investing.

While the markets have pressed higher, the percentage of stocks above their 50 day moving average on both the S&P 500 and NASDAQ topped in early February and has been moving lower.

In short, it appears history is on the side of continued market strength. In addition to near-term upside bias, long-term historical performance suggests additional upside of approximately 7 to 10% from current levels. We believe there is upside to selected growth stocks and therefore we remain cautiously bullish. This rally has been quite powerful, at least in terms of price if not in terms of volume, so we have not been inclined to fight the tape or the trend. Our level of caution however is increasing. As stated earlier, we started cutting back on long positions in late January. In addition, we have mentally prepared to reduce our equity position more should the evidence warrant it. 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.



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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

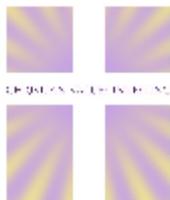
Additionally, we favor companies that clearly embrace:

- 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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