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### MARKET

The S&P 500 finished the first quarter of 2014 with moderate gains. The Dow finished with a 0.7% gain, the S&P a 1.2% return and the Nasdaq was up 0.6%.

This was the fifth straight quarterly rise for both the S&P 500 and the Nasdaq, though it was the smallest three-month advance for both since the fourth quarter of 2012.

A wide range of factors impacted first quarter performance, ranging from geopolitical tensions surrounding Russia's annexation of Ukrainian peninsula Crimea, unusually harsh winter conditions that eroded economic growth, and Janet Yellen's assumption of the chairmanship of the Federal Reserve. Concerns in emerging markets such as Argentina and Turkey complemented broader fears of a slowdown in China to contribute to the negative global outlook.

On March 20<sup>th</sup>, Fed Chair Janet Yellen said "The U.S. Federal Reserve will probably end its massive bond-buying program this fall, and could start raising interest rates around six months later." She later relieved concerns about a rate hike coming earlier than expected in a statement proclaiming she has absolutely no intention of raising U.S. interest rates until the economy reaches its full growth potential. The unemployment rate would need to fall back to historic norms near 5 percent and inflation needs to rise to the Fed's internal target of at least, 2 percent.

From a sector standpoint, 2014 returns have been heavily weighted at both ends and with nothing in between. Very similar to a barbell. Healthcare stocks and utilities are by far the top winners of the year, with consumer discretionary and industrials lagging far behind. The rest of the group falls plus or minus the zero line by a couple hundred basis points. The month of March has wreaked havoc on these figures, with health care and discretionary falling by more than 2%, and telecom rebounding over 4% in the period.



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S&P 500 SECTORS	YTD Return
Cons Discretionary	(3.4)
Cons Staples	(0.1)
Energy	0.8
Financials	1.6
Health Care	4.5
Industrials	(0.9)
Info Tech	1.4
Materials	1.8
Telecom	0.3
Utilities	9.0

Source: Bloomberg

The surprise performer of 2014 is Fixed income. Through March 28, the broadest measure of the fixed income markets – the Barclays Aggregate Bond Index – was outperforming stocks with a 1.9% return. High yield has done even better, rising nearly three percent through the first three months of the year as average option-adjusted spreads tightened.

Many analyst are estimating that the S&P 500 for year-end 2014 will be somewhere near the 1950 level. From current levels, that would suggest 5% of upside. Meanwhile, surveys across various sell-side research groups generally agree that equities are the most attractive asset class right now, with fixed income looking far less interesting – particularly after this year's early retrenchment in rates.

Ultimately, earnings growth will drive 2014 returns; after a year in which multiple expansion was responsible for most of the equity market's gains, fundamental improvement will be needed to propel this market forward. Second quarter earnings season, just one week away, should provide more insight on that front.



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### PERSONAL MESSAGE

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## The Future Is In His Hands

*"For I know the plans I have for you, declares the Lord, plans for welfare and not for calamity to give you a future and a hope." Jeremiah 29:11*

**One of the most inspiring verses in the Bible**, you have probably seen this passage quoted on graduation mugs, paintings, banners, and in sermons. It is found in the Old Testament when God told his people through Jeremiah the prophet, that after a seventy-year period of exile He was going to heroically rescue them. Often I share this verse with a discouraged friend, but admittedly, I forget to add the verses around it that are part of the equation as well. Just after this God says, "Then you will come and pray to me and I will listen to you. You will seek me and find me when you search for me with all your heart." (Jeremiah 29:12-13)

If we offer ourselves, our children and our friends the popular verse above *and* verses that directly follow, we give them a fuller picture of God's desire and plan for us, not only to trust our future to Him but also to follow after Him.

**As a hard-working follower of Christ, you can also take a deep breath.** Your life is on God's shoulders, though the call on your life may feel cumbersome at times. This week and always, let's remember to search for God with all our hearts, through His word, through listening to Him, and through our response of prayer, evangelizing, and serving others. Then, let's rest in His wonderful plans for our new year, and for eternity!



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*Dear Lord,*

*Today I realize how thankful I am to know You. You have given me a wonderful plan for my life and I am forever indebted to You for Your plan to prosper me, and to keep me safe in You. Please give me the courage to share this truth with others, and help me to always seek after You and to spend time with You, my wonderful Lord and Savior. Amen.*

### **MODEL PORTFOLIOS**

In the current market, many of the stocks that have been running up since December have not given investors another safe entry point — yet. A pullback can be a safe way to add exposure to this market, but we intend on being careful. We are checking for signs of demand (support) before buying.

The market should continue to be volatile and buying opportunities could exist sometime during the summer months. From our previous market letters, you know we do not try to call market bottoms or tops; however, we continue to look for value. Currently, the market is still bullish.

Rebalancing and tweaking our models is a main priority for the quarter ahead, however: We will continue to hold an above average allocation in cash until we see value in the market.

### **CONCLUSION**

We believe that stocks are long overdue for a correction that could drive the market down between 10 and 20 percent. We are not suggesting the market will turn into a bear, but we do believe the market is overdue for a correction. When the bull market popped in 2000, 70% of the S&P 500 industries' total market value had price-to-earnings ratios over 30, a level that could be called "bubbly." Today, less than 4% of the industries comprising the S&P's market value have P/E ratios above 30.

Currently, we think investors should pull back on risk since enthusiasm is running high and the market's valuation is relatively rich. We think the pendulum is swinging closer to the side of greed at the moment.

In contrast, the month of April could be a great month for the market. April is the top-performing month of the year over the past 40 years, going by average return, according to Schaeffer's



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Investment Research. "May has averaged a return of 0.67%, ranking seventh out of the 12 months, and then June is even weaker, having averaged a return of 0.39% (ranking eighth)." April, by comparison, has averaged a 1.66% comparison over the past 40 years.

Our call for a correction is a short-term call. We believe that stocks are not in a bubble. Furthermore, we believe we are in a secular bull market that could last for several years to come, though this market remains stretched in the here and now. We are advising our clients to buy on pullbacks. Also, a copy of our current 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



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- 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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