

## Christian Values Investing Inc.

*"serving morally responsible investors"*

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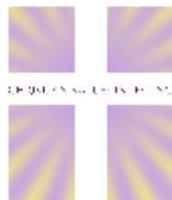
### MARKET

Newton's law of gravity implies what goes up must come down. Also, Newton's law of motion states to every action there is an equal and opposite reaction. These laws have proven true; the stock market has bounce back. But so far, the markets have not recouped the previous nine months of losses. Even our battered economy, will eventually start to recover. Here lies the problem, with so many investors suffering big investment losses and a decrease in net worth, many will not be well positioned to take advantage of the recovery.

For the market to go higher it must overcome a few obstacles. Some problems for the market in the near future will be the growing worry about inflation, interest rates, price of oil and the growing federal deficit. We will address these one at a time.

The worry about rising interest rates is that they will choke off an economic recovery, especially a housing recovery. Bankrate.com says the rate on a 30-year mortgage jumped from 4.8% in late April to 5.6% today, and the Mortgage Bankers Association said that mortgage applications have been dropping as rates have moved higher. In the Federal Reserve's last meeting, The Fed said that the economy is still too weak to worry about inflation and announced it will hold the target range for the federal funds rate at 0% to 0.25% in an effort to keep money easy to obtain. In a written statement, the central bank said "Inflation will remain subdued for some time."

Crude oil is the world's most actively traded commodity and during the first two weeks of June, it rose in price to nearly \$72 a barrel. The Energy Information Administration said the rise in price was due to a decline in domestic crude inventories. However, during the past two weeks Crude oil prices have fell back as optimism on US economy wanes. Since nothing was done to curb speculation in the oil market, we believe that oil prices will continue to rise as the economy strengthens.



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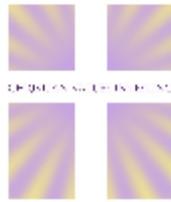
Another growing concern is the growing federal deficit. This year it is expected to exceed 1.75 trillion dollars. This deficit is the biggest flood of budgetary red ink any country has ever seen in world history. And it makes the 2008 \$455 billion deficit look like chump change. With the new stimulus package, government spending will grow even more dramatically than it has over the last several years. With all this comes a greater tax burden for the American people. Currently the Federal government debt (accumulated deficits ) is well over \$10 trillion. With a population of around 305 million people, the per capita burden of this debt is about \$33,000 for every American. The IRS calculates that there are about 140 million income-earning taxpayers in the United States. That means that the per capita taxpayer burden of the government debt averages nearly \$72,000.

Even another concern is when Social Security and Medicare costs exceed their revenues; the Treasury will have to borrow money to cover the shortfalls. This could happen as soon as 2011. When the cost exceeds the revenue, today's stunning deficits will look small. That's why our future contains inflation, not deflation.

The government will have to print more money or raise taxes. Most likely it will be a combination of both. Excessive money printing always leads to inflation, a weaker currency and higher interest rates. The only way out of this burgeoning deficit is to print more money, which inflates the value of assets relative to the amount of debt.

How do I protect myself during inflationary periods is the question that you should be asking yourself. Investing in most fixed income securities like bond and bills wouldn't solve the inflation problem. Investors would have to invest a portion of their money in assets that give them a hedge against inflation: Treasury inflation-protected securities, real-estate investment trusts and energy companies.

During the month of March, the fear of a weaker dollar and excessive government spending caused the Chinese Premier, Wen Jiabao, to publicly expressed "worries" over China's significant holdings of U.S. government bonds. The Chinese own about \$769 billion of U.S.



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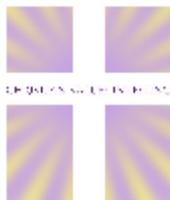
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treasuries. This ties China to America's good times and its bad times. Also, during the second week of June, Russian Finance Minister Alexei Kudrin said the US Dollar is in "good shape." further affirming that there's no substitute for the world's reserve currency. However, the second part of what the Russian Finance Minister had to say, which was that "it's too early for an alternative" to the world's reserve currency is not being widely reported. The term "too early" implies that it will happen; it is just a simple matter of time. Likewise, Russian President Dmitry Medvedev, questioned the dollars global status, joining China's central bank Governor Zhou Xiaochuan in suggesting the world may need another benchmark for settling international debts.

Two of the largest purchasers of our debt have given us some strong warnings. They want an end to the era of the dollar as the world's reserve currency. If that happens, your financial world will be forever altered. By calling for the creation of another reserve currency, China, Russia and other nations seek to create an insurance for their economy against the problems generated when one country's economy goes bad. It also seeks to end the American dominance of the world economy. America's decline and China's rise fit their geopolitical ambitions.

In our opinion, it's unlikely this is going to happen in the near term. China and Russia hold too many dollar-denominated instruments to see this change. As it is right now, they would lose too much. Currently, the United States is too big, too rich and too powerful to fail. There is too much at stake on the global scene. However, that does not mean things couldn't change—and change quickly—but the proper circumstances have to be in place.

The fall of the "dollar" as the world's reserve currency will not happen until the God of the universe wants it to happen. Daniel 4:17 tells us, "the Most High is sovereign over the kingdoms of men and gives them to anyone he wishes and sets over them the lowliest of men." God has blessed America with its wealth, power and resulting prestige. He will move to change that when it fits His timing for His great plan for all the nations.



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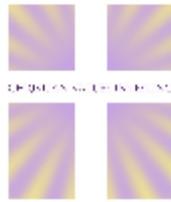
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### MODEL PORTFOLIOS

Our model portfolios continue to outperform their comparable indexes. All of them (except David & Joseph) remain diversified across all major industries. We are seeing strengths in several industry groups that make up our models. These include materials and information technology. Also, over the last three months financials, industrials, and information technology have come on strong. In the future, inflation may cause us to move to a more defense position. When the Federal Reserve starts raising interest rates; precious metals, Treasury inflation-protected securities, and other areas that maintain their value during periods of inflation will be the place to move money.

### CONCLUSION

We believe the market will remain volatile and further significant declines are possible. Even if the market does decline, it stands a good chance to recover relatively quickly, as has been seen in the market's action in the last three months. History suggests those who remain constructively engaged in the investing process during the turbulence come out favorable over the long-term. Investors, who try to time the market by fleeing, will not be well positioned to take advantage of a recovery. While we are not encouraged by the economic policies being pursued by our president and Congress, we have confidence in the ability of American corporations to adapt to whatever scenario unfolds and create wealth for their shareholders. Historical evidence overwhelmingly supports such a stance. While this is no guarantee of future success, it does tilt the odds significantly in favor of those willing to stay invested. We believe the uncertainty that we see now can be turned into long-term profits by staying invested. The Bible instructs us to, "Be very careful, then, how you live—not as unwise but as wise, making the most of every opportunity, because the days are evil" (Ephesians 5:15-16). Also, a copy of our current ADV is available upon request.



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### **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:

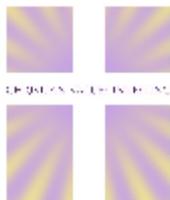
- Alcohol, Gambling and Tobacco
- Pornography
- Homosexuality

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



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- 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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