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### MARKET

There were many important news events that occurred over the past three months. Here are a few that you might have missed if you only watch the nightly news.

The May 6, 2010 Flash Crash was a stock market crash involving U.S. corporate stocks, it was followed by an almost immediate rebound. The flash crash was the second largest point swing, 1,010.14 points, and the biggest one-day point decline, 998.5 points, on an intraday basis in Dow Jones Industrial Average history. It was a stock market anomaly, the major market indexes dropped by over 9% (including a roughly 7% decline in a roughly 15 minute span) before a partial rebound at approximately 2:45 pm eastern time. Temporarily, \$1 trillion in market value disappeared. While stocks markets do crash, immediate rebounds are unprecedented. The cause of the drop remained unknown, but on June 18, 2010 the market data feed company Nanex, released its Flash Crash analysis. In their report they detail new, solid evidence for the cause of the Flash Crash. The cause of the Flash Crash was a data feed and quote stuffing problem. Nanex gives several recommendations to insure that another Flash Crash does not happen in the future.

Mortgage rates hit their lowest point in more than 54 years during the last week of June. The average rate for a 30-year fixed-rate mortgage is 4.69%. The rate is the lowest since Freddie Mac started keeping records in 1971. The previous low in the agency's weekly mortgage market survey was 4.71% in December 2009. For most Americans, 4.69% is the lowest rate they've seen in their lifetimes. To have purchased a house at a lower interest rate with a conventional 30-year mortgage, you'd have to be at least 75 years old. The last time we saw lower rates was March 1956, according to National Bureau of Economic Research statistics, when rates were 4.68%. The bureau's earliest statistics are from 1949, when the rate was 4.35%.

Also in the news in May was that the federal budget deficit hit an all-time high for April as the government kept spending to aid the recovery while revenue fell sharply. The Treasury Department said that April's deficit soared to \$82.7 billion. That was significantly higher than last year's April deficit of \$20 billion and the largest imbalance for that month on record. The government normally runs surpluses in April as millions of taxpayers file their income tax returns. However, income tax payments were down this April, reflecting the impact of the recession which has pushed millions of people out of work. The Obama administration forecast in February that the deficit for this year will hit an all-time high of \$1.56 trillion, surpassing the current record \$1.4 trillion set last year.

In a June 24<sup>th</sup> interview on Yahoo Finance, Michael Pento senior market strategist at Delta Global Advisors was quoted saying, "America's debt bomb is ticking and is likely to detonate in five years or less. It could be much sooner when we hit the debt wall." Pento also said, "My opinion doesn't matter: Math tells me we're in a serious problem." The math Pento



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refers to is the Treasury Department's recent estimate that total U.S. debt will top \$13.6 trillion this year and rise to 102% of GDP by 2015. Moreover, the publicly traded debt (debt excluding intra-governmental obligations) will rise to \$14 trillion by 2015, up from "just" \$7.5 trillion in 2009. At \$14 trillion, the interest payments on the public debt will total about \$1 trillion in 2015, he continues; even assuming solid growth and low inflation, that would equal about 30% of total government revenue.

We like Pento, believe that the timing of the debt crisis will be hard to predict. However, we do believe that we will end up like Greece, but much worse, unless our politicians make a sudden turn toward austerity. Pento believes that this could happen in as early as four years. Currently, I do not believe our leadership has what it takes to perform the much need spending cuts that must take place to turn this country around. These dramatic cuts would cause our economy to go into a state of depression not seen since the 1930's.

The S&P 500 ended the second quarter of 2010 with a 12% loss for the 3-month period. The Dow Jones Industrial Average closed down 9.7%, while the Nasdaq Composite Index was down 12% for the quarter. Investors continue to worry about Europe's sovereign debt and the sustainability of the U.S. economic recovery. These losses put Wall Street in correction mode as the second quarter ended.

### **PERSONAL MESSAGE**

If the United States economy was to fall off a cliff and go into a major depression—the worst in its 234 year history, what would you do? How do you protect yourself in a bad economy? God does have a road map for the financial storm clouds that are gathering. It is the Holy Bible. Centuries ago, His inspired writers clearly indicated that we would experience a time of great financial upheaval in the last days. Currently, the United States is caring over thirteen trillion in debt, while China and Russia is calling for a new world currency. Most Christians do not understand the role that the economy plays in world events. When and if the United States and the dollar is no longer the leader in financial markets, financial upheaval will be in order. The greed of individuals and corporations will cause this disaster. Intense misery will inflict the world as the “treasure heaped together for the last days” evaporates.

There are many biblical principles on how to put your financial house in order. Here are just a few.

Be free of debt. “The borrower is servant to the lender” (Proverbs 22:7). When we are indebted to someone else, we lose a degree of freedom. If you haven't yet done so, pay off your credit cards, car loans, second mortgages, and all other debts.



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Spend less than you earn. Live by a budget (spending plan). Stop consuming every dollar you earn. Learn to count the cost. Discern between "wants and needs."

Build Liquidity. Another important biblical financial principle is to have some money set aside for emergencies. What if you lose your job or get ill and can't work? You will need several months of living expenses set aside in a cash account for easy access. Proverbs 6:6-8 tells us, "Go to the ant, you sluggard; consider its ways and be wise! It has no commander, no overseer or ruler, yet it stores its provisions in summer and gathers its food at harvest."

Be long-term goal oriented. "I press on toward the goal to win the prize for which God has called me heavenward in Christ Jesus" (Philippians 3:14).

### MODEL PORTFOLIOS

During the past six-weeks we have been made extensive changes to our models. Within the next few weeks, if the market remains weak, we will be making some defensive changes to our portfolios.

As compared to the market, we had a good second quarter. All six of our model portfolios beat their comparable indexes by a wide margin for the quarter ending 06/30/2010. However, we are not pleased with the returns.

During the month of May we opened *The Refuge* portfolio for smaller investors. This portfolio is designed for investors who have less than \$50,000 in their portfolio. *The Refuge* is a balanced portfolio with low risk growth. Many investors start the investing process late in life; as a result, they have not accumulated a large portfolio. Because of their age and lower risk tolerances, *The Refuge* portfolio was constructed.

Over the past two months we have been back testing our *Trust* portfolio before we open it up to individual investors. This portfolio is designed for investors seeking capital preservation. *The Trust* portfolio will never make stellar returns, but it will help preserve your capital during trying market conditions.



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### CONCLUSION

As we mentioned in the previous newsletter, we at Christian Values expected to see slow, steady growth through the first half of the year. It now looks like there may be a possibility of a second dip back into a recession. If the Fed leaves interest rates unchanged; the dollar should continue to fall, and stocks could rebound. We also believe that earnings growth for companies during the first half of the year will beat analyst expectations. However, if the economy slows and we dip back into a recession, earnings will slow down. Our economy is in a fragile place.

The upward momentum for stocks is currently stalled. As I'm typing this letter (July 1<sup>st</sup>), the S&P 500 has broken down below the 1050 level. Also, the Dow 30 has penetrated below the 9750 level. This clearly indicates that we are now in a correction mode. The last time the market was around that area was November 2009. The next two weeks we should get a good idea about the direction of the market. By mid-July, companies will start posting their quarterly results. If earnings come in stronger than expected, the upward momentum will resume. However, if earnings are weaker than expected, the market will possibly go lower. We believe earnings will be expectations for most companies.

The last quarter of the year or the first quarter of next year could present a different story. We believe that interest rates will start to go up some time during the next six months. When this happens, stocks will most likely retreat, the dollar will gain in value, and gold prices will drop. The first half of the year should be better than the second.

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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