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MARKET

The stock market can ignore economic woes and worries for only so long. That is why a pullback is in the making and the smart investor should be watching the markets very closely. Since last summer, it's been a very good time to be in the stock market. The economic turmoil and price volatility which had become so commonplace were smoothed over while the average investor came back into stocks in a big way. Mainly, this was due to the Federal Reserve's quantitative easing (buying back their own long-term bonds). Since the Federal Reserve started injecting cheap cash into the heart of the financial system, the result has been higher prices for both stocks and commodities.

Nevertheless, many experts are worried because the second round of quantitative easing has ended and a third round, is viewed as highly unlikely. Without the Fed's purchasing long-term bonds, some believe that there could be a huge hole in the Treasury bond markets. The big question is "Who will step up to the plate to buy them and how much will they be willing to pay?"

The conclusion of the Fed's bond-buying program, will lead to higher yields on U.S. bonds, and that could prove to be a positive trend for the U.S. dollar. The end result should be a stronger dollar and weaker commodity prices.

Allan Meltzer, a Carnegie Mellon professor, American Enterprise Institute visiting scholar and Fed historian believes the Fed should raise interest rates now. Unlike Fed chairman Ben Bernanke, Meltzer believes inflation pressures are rising, citing rising raw material costs at the wholesale level. Even though quantitative easing has ended, Meltzer also believes that the Federal Reserve will continue to buy enough bonds necessary to hold interest rates low. He calls this a "great mistake."

During their June meeting, the Federal Reserve acknowledged that the economy was growing more slowly than it expected. They also repeated a pledge to keep interest rates at record lows near zero for "an extended period," a promise it's made for more than two years.

Politicians in the US have virtually guaranteed that the US economy won't go into crisis in 2011. Politics make it extremely unlikely that the economy will slow down as much as the market seems to fear. With the presidential election in 2012, it is obvious that the Republicans will attack the Obama administration on the state of the economy. The Republicans do not want to strike a deal over the debt ceiling because if they did, it would remove the shocking state of U.S. finances from the minds of voters. So, by late 2012 or early 2013, no matter how the election goes, the Federal Reserve will be under almost unbearable pressure to reduce its balance sheet and raise interest rates.



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Stocks ended the first half of the year solidly higher, as investors put a turbulent six months behind them. The S&P 500 ended the second quarter of 2011 with a 5% gain for the first half of the year. The Dow Jones Industrial Average closed up 7.2%, while the Nasdaq Composite Index was up 4.6% for the first half of the year.

The second quarter was difficult, however. Stocks struggled over the past two months amid jitters about Europe's sovereign debt problems and an economic slowdown in the United States. The Dow ended the quarter up 0.8%, while the S&P 500 and Nasdaq finished about 0.3% lower. That quarterly performance was the worst in a year for all three indexes.

PERSONAL MESSAGE

Originally written by Charles H. Spurgeon, published in "Mornings & Evenings," entry for September 5th, AM. Updated to modern English by Darren Hewer, 2009.

"Woe to me that I dwell in Meshech, that I live among the tents of Kedar!" Psalm 120:5

As a Christian you presently live in an ungodly world, and it's little use to cry "Woe is me." Jesus did not pray that you would be taken out of the world, and what He did not pray for you do not need. It's far better to, in the Lord's strength, meet the difficulty, and glorify Him through it.

Satan is always watching to detect any flaws in your actions. Therefore, be holy. Remember too that the eyes of all non-Christians are also watching you, and more is expected from you than from other people. Strive to give them no reason to accuse you. Let your goodness be the only "fault" they can discover in you. Like Daniel, make them to say about you, *"We will never find any basis for charges against this man Daniel unless it has something to do with the law of his God."* (Daniel 6:5)

Seek to serve God as well as to have ethical conduct. Perhaps you might think, "If I were in a more favorable position I might serve the Lord, but I can't do any good where I am." But the worse the people are around you, the more they need you to share God's love with them. Those who are near yet not with God, and those who are far from Him, all need someone like you to turn their proud hearts to the truth.

A doctor should be where there are many who are sick. (Mark 2:17) Likewise, the place for a soldier is in the midst of the battle. And when you are tired of all the sin and struggle that seems to meet you at every turn, consider that all God's saints through the ages have endured the trials



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too. They were not carried on soft beds to heaven, and you must not expect to travel any more easily. They risked their lives, and you will not be crowned until you have endured hardship as a valiant servant of Jesus Christ. Therefore, *"Be on your guard; stand firm in the faith; be courageous; be strong."* (1 Corinthians 16:13, TNIV)

MODEL PORTFOLIOS

The table listed below gives our annualized performance for quarter ending 06/30/2011. So far this year, we have been very pleased with our performance. The computation of our performance is performed by a third party (BridgePortfolio) out of Chicago Illinois.

Annualized Performance									
	Faith Portfolio	Hope Portfolio	Sanctuary Portfolio	David Portfolio	Joseph Portfolio	Solomon Portfolio (Mutual fund account)	Refuge Portfolio (Inception date 4/30/2010)	Trust Portfolio (Inception date 8/24/2010)	S&P 500 Index (Total Return)
One Year (6/30/2010 - 6/30/2011)	57.66%	46.55%	31.56%	47.76%	47.93%	37.73%	34.02%	N/A	30.69%
Three Year (6/30/2008 - 6/30/2011)	15.65%	10.48%	7.42%	10.59%	9.87%	6.22%	N/A	N/A	3.34%
Five Year (6/30/2006 - 6/30/2011)	12.90%	8.80%	7.00%	10.80%	10.90%	4.71%	N/A	N/A	2.94%



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CONCLUSION

The Federal Reserve's apparent lack of enthusiasm for further aggressive stimulus has given a green light to the U.S. dollar. The fundamentals are changing. Quantitative Easing 2 is over and Quantitative Easing 3 does not look like it will happen. However, the Fed will continue to inject money into the system, but the pace will be much slower. As I've mentioned on each of my market letters over the past two years: U.S. Dollar Strength = Weak U.S. Stocks and Commodities.

For now, we believe the stock market will continue on the same path. However, our sense is that the second half is likely to be a little better than what we saw in the first half of this year.

Looking ahead, we expect trouble for the market in the summer of 2012 as profits could peak just as the Fed begins to raise interest rates. But the economy could continue to grow until 2014. Also,

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



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- 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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