

## Christian Values Investing Inc.

*"serving morally responsible investors"*

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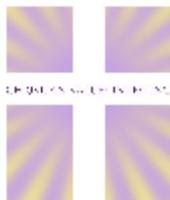
### MARKET

The first half of 2012 is now behind us. From a rate of return standpoint, it was a decent first half of the year. The markets experienced a reasonably significant corrective phase during the second quarter. However, the markets have made a very impressive run, the last few days of June. The stock market soared the last day of the quarter in response to the latest European Summit in Brussels. The euphoria was driven by a perceived solution to the ongoing European debt crisis. It was the best June for the Dow and S&P 500 since 1999 and the best for the Nasdaq since 2000. Will the positive environment continue? We believe the answer to this question is multi-layered, and not easily stated. However, we do believe that the markets should trade at higher levels later in 2012 than they are today, but we do not believe this is new life for an extended bull market. We believe the current move is tactical and not long-lived without a significant corrective phase.

Stocks, however, did end the second quarter lower. The Dow fell back 2.5%, with the S&P 500 down 3.3% and the Nasdaq and Nasdaq-100 both down 5.1%. But the market for the year is still well in the black. The Dow is up 5.4% for 2012, with the S&P 500 up 8.3% and the Nasdaq up 12.7%. The Nasdaq-100 remains up 14.8%.

	6/29/2012	YTD chg.
Dow Industrials	12,880.09	5.42%
S&P 500	1,362.16	8.31%
Nasdaq	2,935.05	12.66%
Russell 2000	798.49	7.77%
Crude oil (per barrel)	\$84.96	-14.03%
U.S. Dollar Index	81.75	1.53%
10-yr. Treasury	1.66%	-11.33%
Gold	\$1,597.70	2.39%

Many investors do not realize that consumer activity accounts for nearly 70 percent of gross domestic product. Without a confident consumer willing to spend, borrow, and keep up with financial obligations, the U.S. economy will find it difficult to grind its way out of its current low-growth cycle. Furthermore, global growth is slowing. And that is beginning to take a toll on



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portions of the U.S. economy. Fears that Europeans can't solve their debt crisis pushed the market lower during the second quarter.

Also, amid signs of the global economic slowdown, Crude oil briefly fell below \$78 a barrel, which is near an eight-month low. The thought being that the global slowdown would curb fuel demand.

Likewise, gas prices have fallen for thirteen straight weeks, something that hasn't happened since December 2008. Because gas prices were near four dollars per gallon in late March, high gas prices are still an albatross around many consumers' neck.

We believe over the longer term, inflation is probably going to prove to be a real issue. But over the next six months, we think inflationary pressures will recede due to economic growth deceleration.

Taking our cue from our generalized outlook for inflation, we don't believe interest rates are going to rise significantly over the next six months.

Our bottom line advice – stay the course, maintain a normalized risk profile in portfolios. However, we expect to see downside volatility rear its ugly head at times later this year. Consequently, we advise maintaining discipline regarding appropriate portfolio risk profile.

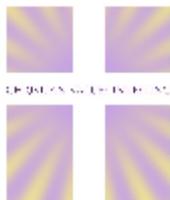
### **PERSONAL MESSAGE**

Originally written by Charles H. Spurgeon, published in "Mornings & Evenings," entry for March 8th, AM. Published by Truth Media Network, published in "Power to Change," entry for Charles Spurgeon, June 16, 2012. Copyright 2012

#### **God's Grace through Trials**

*"We must through much tribulation enter into the kingdom of God." (Acts 14:22)*

God's people have their trials. It was never designed by God, when He chose His people, that they should be an untried people. They were chosen in the furnace of affliction; they were never chosen to worldly peace and earthly joy. Freedom from sickness and the pains of mortality was never promised them; but when their Lord drew up the charter of privileges, He included



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chastisements amongst the things to which they should inevitably be heirs. Trials are a part of our lot; they were predestinated for us in Christ's last legacy.

So surely as the stars are fashioned by his hands, and their orbits fixed by Him, so surely are our trials allotted to us: He has ordained their season and their place, their intensity and the effect they shall have upon us. Good men must never expect to escape troubles; if they do, they will be disappointed, for none of their predecessors have been without them. Mark the patience of Job; remember Abraham, for he had his trials, and by his faith under them, he became the "Father of the faithful." Note well the biographies of all the patriarchs, prophets, apostles, and martyrs, and you shall discover none of those whom God made vessels of mercy, who were not made to pass through the fire of affliction.

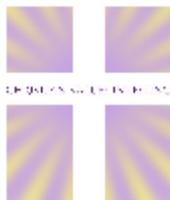
It is ordained of old that the cross of trouble should be engraved on every vessel of mercy, as the royal mark whereby the King's vessels of honor are distinguished. But although tribulation is thus the path of God's children, they have the comfort of knowing that their Master has traversed it before them; they have His presence and sympathy to cheer them, His grace to support them, and His example to teach them how to endure; and when they reach "the kingdom," it will more than make amends for the "much tribulation" through which they passed to enter it.

### **MODEL PORTFOLIOS**

Managing an investment portfolio (as distinguished from a trading portfolio) is not taking a long or short position; it is working off a complicated assimilation of fundamentals, technicals and valuation.

While it currently seems that an extremely volatile market requires one to be totally in or out of the market. Making correct long or short decisions every day, week, or month is virtually impossible. I have tried but to no avail. No one is that clairvoyant to accurately predict every wiggle. Investment Pros and Journey men investors can occasionally forecast and position a small portion of a portfolio for a short-term move in an attempt to produce a cash-register effect of locking in gains, but, in the main portion of our portfolios, we recognize that the odds of succeeding may be remote.

We at Christian Values Investing aim for more balance and consistency in our portfolios. This means if, in a normal market environment a 60%/40% stock/bond fix (i.e. Sanctuary Portfolio) is



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in line with your investment objectives and risk appetite, then a more uncertain investment backdrop (such as we face today) should have a stock/bond guideline of some lesser amount with a cushion of cash -- perhaps 45% stocks, 30% bonds and 25% cash. Extreme positions of putting on or putting off risk (in cash or stock) are generally unsound and can produce negative consequences. More balance, even in times of uncertainty, represents a more sound investment strategy.

### CONCLUSION

As we stated one year ago, it still looks like Quantitative Easing 3 will not happen. However, the Fed will continue to inject money into the system, by purchasing long-term Treasuries to keep long-term interest rates low.

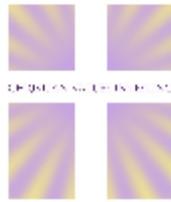
For now, we believe the stock market will continue to move sideways. However, our sense is that the last quarter of the year could be a little better than what we saw in the second quarter of this year.

Looking ahead, there are many head winds for the market for the rest of the year. We expect trouble for the market in the late summer of 2012 as profit growth for the second quarter is expected to slide. But the economy could continue to grow slightly until 2014.

It seems that everybody (governments as well as consumers) are in debt, and no one has excess money laying around. Artificially stimulating growth via the government intervention route (Quantitative Easing) has become burdensome to the tax payer with very little positive effect on the economy. Factors like these are forming major headwinds for the stock market to face for the next couple years. 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*



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*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

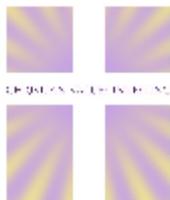
4. We want to **protect marriage and the family** so we screen out companies involved in:

- 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
- 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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