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MARKET

Stocks ended June with a stumble, but the first half of 2013 was memorable for the great rally that pushed into May and the startling volatility that erupted in June. Stocks wrapped up the second quarter with all three indexes recording gains of between 2% and 5%, despite a challenging June. The Dow, S&P, and Nasdaq are all up between 12% and 14% as the first half of the year ends. The Dow Jones Industrials had its best first-half performance since 1999, though June was not as sunny. All indexes ended the month down roughly 1%, making June the first losing month this year. Months of calm and upward momentum have suddenly been replaced by uncertainty, volatility, and fear. The Dow Jones Industrial Average has tipped into its worst sell-off since October. Japanese and Chinese stock indexes have entered bear-market territory, with the Shanghai Composite earlier this week testing levels not seen since January 2009.

The central issue is pretty clear: The Federal Reserve is moving to phase out cheap-money stimulus by trimming its \$85 billion-a-month "QE3" bond-buying program. Fed officials have been in major damage control mode, since Fed chairman Ben Bernanke kicked off tumult in the stock, bond and gold markets the last week of June. He said the central bank could wind down its stimulus program later this year, if the economy continues to improve. The timing is unclear, but no longer can we assume that government borrowing costs, and thus interest rates throughout the economy, will remain low and docile for years to come. The Fed's cheap money has been the key to keeping the economic recovery going and to the market's big rally and recent all-time highs. The big question is, can the economy keep going without it?

Upcoming economic data will determine if the Fed pushes ahead with its tapering plans at its July and September policy meetings, or if it decides to move more slowly. Decent performances by the housing and auto industries in this country and, perhaps more important, evidence that China's economy isn't stalling would give evidence that the economy is not slowing down. Currently there are disputes if the economy is continuing to slow or re-accelerating, as the Fed is forecasting. And while a growing economy sounds good, it would also mean that inflation-adjusted interest rates, which have already shot up are headed even higher. The end result will be a test for the housing market.

We believe that investors need to come to grips with the probability that interest rates will move higher in the next eighteen months.



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The mere mention of any end to bond buying by the Fed sent bond investors scrambling for the exits. The yield on the 10-year Treasury note hit 2.65% during the last week of June, its highest level since August 2011 and well above the 1.6% in early May. Likewise, Gold prices have been slammed as well. Gold sunk 13% during the month of June.

PERSONAL MESSAGE

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All Stressed Up and Nowhere to Go

"I am leaving you with a gift—peace of mind and heart. And the peace I give is a gift the world cannot give. So don't be troubled or afraid." John 14:27, NLV

In today's world it is virtually impossible to avoid stress. Almost everyone is carrying some amount of it, in varying degrees. Many find it increasingly difficult to simply survive in the world we live in. You're probably stressed out right now. That's okay. It's understandable. So is everybody else, according to a study released recently.

The study measured the forty largest metropolitan statistical areas in the country, focusing on six factors that cause or are caused by stress: *high unemployment, long commute times, long work hours, limited access to health care, poor physical health and a lack of exercise.* And, I live in the fourth most stressful city in the nation. No wonder I am stressed out, but at least I have good company.

In desperation, people are seeking relief for their problems through any remedy they can find. Our culture is inundated with self-help books, therapists, time-management workshops,



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massage parlors, and recovery programs (to name just the tip of the iceberg). Everyone talks about returning to a “simpler” way of life, but no one seems to even know exactly what that means, or how to attain it.

Many of us cry out like Job, *“The churning inside me never stops; days of suffering confront me.”* (Job 30:27). The problem is that people are looking for all the right solutions in all the wrong places. Jesus said, *“Come to me all you who are weary and burdened, and I will give you rest. Take my yoke upon you and learn from me, for I am gentle and humble in heart and you will find rest for your souls. For my yoke is easy and my burden is light.”* (Matthew 11:28-30).

Jesus’ gift is a gift that the world cannot give. It is a peace that surpasses all human and worldly understanding. The Bible is the only self-help book that can give you true inner peace and overcome the stress of the world. So, if you are stressed out, follow this simple formula: Read five psalms and one chapter of Proverbs each day and you will discover true peace and overcome the stress of the world.

Question: What has been stressing you out lately? Have you been bringing these things to God in prayer?

MODEL PORTFOLIOS

I’ve been managing money for over 25 years. For the first 18 years, I would do very well during market uptrends, only to give back a good deal of profits during the corrections. I made one simple adjustment over the past 7 years: When I see potential warning signs, I now go partially to cash or short-term bonds and sit out most of the upcoming correction! However, over long periods of time, cash is the worst investment you can have. The reason is inflation. Investment returns on cash have not kept up with consumer price increases. So, the value of cash diminishes in real, or inflation-adjusted, terms over time. Actually, according to BlackRock,



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Morningstar, and the Tax Foundation cash has offered a negative after tax return for the period of 1926 to 2012. So, over the past 86 years cash has generated a negative total return.

We do not believe in Market Timing or Strategic Asset Allocation, however we do believe in something called Tactical Asset Allocation, a process of making changes based on valuations of various asset classes. These types of analytical based changes don't mean you'll necessarily get it right each time, but they do offer an opportunity to perhaps expose yourself to less risk, and set yourself up for a better investing experience.

Since mid-April, we took a highly defensive position in most of our models by allocating much of our assets to cash. The reason being, we believe that both bonds and stocks are over-priced.

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 do look for trend reversals. Currently, the market is still bullish.

Getting reinvested in our models is a main priority for the quarter ahead, however: We will hold a large allocation in cash until we see value in the market. We will continue with this strategy until we see value.

CONCLUSION

Bull or Bear? It's not clear what will happen next in the near future. However, we believe markets will start to go lower before the start of the fourth quarter. We believe the fundamentals of the domestic economy don't support the indexes' current levels.

A big question right now is "Are we getting ready for another summer slump for the S&P 500?" Currently the markets trend is still upward. For a short period of time, the markets looked to be poised for a correction. In contrast, we think the market could try its previous high made in mid-June.



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In our January 2013 market letter we mentioned that "You don't fight the Fed," so it stands to reason when the Fed says they'll keep interest rates at zero well into 2015, you would expect rates to stay at or close to zero. Contrary to, the Federal Reserve's June meeting they signaled that they are moving to phase out cheap-money stimulus by trimming its \$85 billion-a-month "QE3" bond-buying program. In addition, we stated one way to make money is to determine what is the federal government or the Federal Reserve "mission" and bet "with" the mission. That is, find out what these people are trying to do and develop an investment strategy that "uses" this mission. As of June, the current mission is to slow down QE3. The Fed's new mission will have a negative impact on bonds and stocks in the short-term. 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 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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