



Christian Values Investing Inc.

"serving morally responsible investors"

Christianvalues.com

MARKET

The stock market ended the third quarter solidly in bear-market territory. The day before the third quarter of 2008 ended, the House of Representatives voted down the financial-markets rescue plan and stocks torpedoed down nearly 780 points; their largest one-day point drop ever. Yet hope remains that if a credible solution emerges to stabilize the financial system, conditions would be in place for stocks to begin a slow recovery. To end the quarter the Dow Jones Industrial Average rebounded 485 points. However, for the quarter it's down 4.4% and is down 23% from its peak last October. The Standard & Poor's 500-stock index is off 9% from the end of June and down 26% from its high. The Nasdaq Composite Index, meanwhile, dropped 9.2% in the third quarter and is 27% below its multiyear high set last Halloween. To say the least, 2008 has been a roller coaster ride for investors with most of the journey going downhill.

"Financial Crisis" is the term that is floating around all major newspapers, magazines and internet chat rooms. Just a few months ago, the fear was inflation. The fed was concerned with rising energy and commodity prices. Currently, that fear seems eons old. The fear of failing banks reminds me of the fear floating around during the Saving & Loan crisis during the late 80's and early 90's. During this time 747 Savings and Loans went belly up with an estimated cost of about 160 billion dollars. Many believe the S&L crisis caused the slowdown in the economy which was the contributing cause of the 1990–1991 economic recession. It seems that recession always follows a financial crisis!

Here is some history. In 1933 the Glass-Steagall Act established the Federal Depository Insurance Corporation (FDIC) and included banking reforms, some of which were designed to control speculation. The Glass-Steagall Act was a reaction of the U.S. government to cope with the collapse of a large portion of the American commercial banking system in early 1933. One of the provisions prohibited a bank holding company from owning other financial companies. This protective Act was repealed on November 12, 1999 by a bipartisan, conference committee version of the Gramm-Leach-Bliley Act signed by President Bill Clinton. Before President Clinton signed the repeal and made it law, a bank could not own another bank outside of the State it was headquartered, nor could it own a brokerage or insurance company. In a nut shell, Glass-Steagall was designed to be a safe-guard against speculation and greed; a protective shield of armor against the next financial depression.

According to Wikipedia, many economists "have criticized the repeal of the Glass-Steagall Act as contributing to the 2007 subprime mortgage financial crisis." One of those is economist Robert Kuttner, the co-founder and current editor-in-chief of *The American Prospect*. Mr. Kuttner believes the repeal contributed to the subprime meltdown which now has placed our financial markets in a Crisis Mode. "The repeal enabled commercial lenders such as Citigroup, the largest U.S. bank by assets, to underwrite and trade instruments such as Mortgage back securities and Collateralized debt obligations and establish so-called Structured Investment



Christian Values Investing Inc.

"serving morally responsible investors"

Christianvalues.com

Vehicle, or SIVs, that bought those securities. Citigroup played a major part in the repeal. Then called Citicorp, the company merged with Travelers Insurance Company the year before using loopholes in Glass-Steagall that allowed for temporary exemptions. With lobbying led by Roger Levy, the "finance, insurance and real estate industries together are regularly the largest campaign contributors and biggest spenders on lobbying of all business sectors in 1999. They laid out more than \$200 million for lobbying in 1998, according to the Center for Responsive Politics." These industries succeeded in their two decades long effort to repeal the act.

Let's look at what the reversal of Glass-Steagall has done on bank consolidations. Following is a history of just one bank. It is an incomplete list of former financial institutions that now comprise what is known as JPMorgan (JPM):

- Bank One
- Chase Bank
- U.S. Trust
- Manufacturer's Hanover Trust
- Chemical Bank
- First Chicago
- National Bank of Detroit
- First U.S.A
- Bear Stearns (BSC)
- Washington Mutual

According to their website, JP Morgan has assets in excess of 2.0 trillion and operations in more than 60 countries.

We believe that our financial markets are in a financial crisis mainly because the Glass-Steagall Act was repealed. Both Republicans and Democrats are at fault, because both parties almost unanimously voted in favor of the repeal. The lust for banking largeness is fueled by major contributions to both political parties. These contributions come from Commercial banks, Wall Street bankers, and investment and securities firms along with Hedge funds. Don't be fooled, this financial crisis was not caused by Lyndon Johnson's great society, where everyone deserves a home even if they cannot afford it, neither was it because of a failed Bush economic plan. The greed of many caused this crisis. By definition, greed is the selfish desire for or pursuit of money, wealth, power, food, or other possessions, especially when this denies the same goods to others. Proverbs 15:27 says, "A greedy man brings trouble to his family." Greedy bankers, executives, politicians among others have brought trouble to our financial markets. Paul the Apostle, in his writings to Timothy (1 Timothy 6:10) tells us that "the love of money is the root of all evil." Instead of greed, the Bible teaches contentment. Contentment is the state of being satisfied. Financial contentment means living within our God-given provisions. 1 Timothy 6:6 tells us "Godliness with contentment is great gain."



Christian Values Investing Inc.

"serving morally responsible investors"

Christianvalues.com

Enough of the bad news! Here is the good news. God's word never changes, it always remains the same. It is applicable during financial crisis or during a roaring bull market. It is your road map to success. Even during extreme crises; when social, economic, political, or international affairs, seems to be turned upside down, God's word has the answer. Our goal at Christian Values Investing is to deliver sound financial planning and investment advice based on God's word. Our advice to you will always be based on sound biblical financial principles. As you know, the Bible has withstood the test of time and it has always been accurate in the direction it gives; and it always will be accurate because it is the infallible word of God. We may not like our current financial environment but our source of direction is always true.

Effective investing is not an end in itself; rather it is a vital part of the total financial planning process. While fear and greed can work against a biblical approach to investing, those who use a strategy based on wisdom of the Bible will find themselves equipped to make sound decisions that are not dictated by the short-term economic climate.

MODEL PORTFOLIOS

As most of you know, five of our model portfolios had been in a 50% cash position since mid-March. In each of our market letters this year, we mentioned that we believed that the market would continue to be volatile and buying opportunities would exist over the next few months. We were not attempting to call the bottom of the market nor were we trying to predict if the economy was going into a recession. Neither were we trying to predict the severity that sub-prime mortgages would have on the financial markets. What we were trying to do is look for value in the market. We believe that day finally came on September 17th. As the Dow Jones attempted to close near 10,600 we thought it was time to get back fully invested. We may have missed the very bottom, but we believe the timing was right to get back invested.

Three of our models (Faith, Hope & Sanctuary) are diversified into each industry group that makes up the S&P 500. There are ten industry groups that make up the S&P 500. One of the investment principles outlined in the Bible can be found in Ecclesiastes 11:2. "Divide your portion to seven or even eight, for you do not know what misfortune may occur on the earth." This principle teaches that we are to preserve and grow our capital through a diversified portfolio of investments.

The other three models (David, Joseph & Solomon) that we manage are for smaller investors desiring to accumulate and build wealth. Since these portfolios are smaller they may be less diversified. These three models are designed for investors seeking to follow the biblical principle of steady plodding. Proverbs 21:5 tells us, "Steady plodding brings prosperity; hasty speculation brings poverty."



Christian Values Investing Inc.

"serving morally responsible investors"

Christianvalues.com

All of our models are managed with the Biblical perspective of preservation and steady growth along with a long-term time horizon. Proverbs 28:20 teaches us that "A faithful man will be richly blessed, but one eager to get rich will not go unpunished." This scripture gives us a biblical perspective of preservation and steady growth. Luke 14:28 says, "Suppose one of you wants to build a tower. Will he not first sit down and estimate the cost to see if he has enough money to complete it?" This scripture teaches us to cultivate a long-term perspective.

CONCLUSION

The first three-quarters of the year was a rough one for investors. We believe the next quarter will continue to be volatile. The Federal Reserve has done all it knows to do to keep this economy out of a recession. We believe the Senate and House will eventually pass a bailout plan. As stated in our previous Market Letter, we continue to believe the upcoming presidential election will be a positive for the stock market.

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 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:



Christian Values Investing Inc.

"serving morally responsible investors"

Christianvalues.com

- 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.

The information provided herein is not a complete analysis of every material fact respecting any industry, security or investment. Opinions expressed by Christian Values are subject to change without notice. Statements of fact cited by Mr. Hammond have been obtained from sources considered reliable. No representation, however, is made as to the completeness or accuracy of any statement or numerical data in the article. This publication may include technical or other inaccuracies or typographical errors. Christian Values assumes no responsibility for errors or omissions in this publication or other documents which are referenced by or linked to this publication.

This publication is provided "as is" without warranty of any kind, either express or implied, including, but limited to, the implied warranties of merchantability, fitness for a particular purpose or non-infringement. In no event shall Christian Values be liable for any damages whatsoever, including without limitation, special, incidental, indirect, or consequential damages of any kind, whether or not advised of the possibility of damage, and on any theory of liability, arising out of or in connection with the use or performance of information in this publication. Other names, logos, designs, titles, words, or phrases in this publication may constitute trademarks, service marks, or trade names of other entities, which may be registered in other jurisdictions.

This publication is intended for educational purposes. The information contained in this publication is periodically updated. No statement in this publication should be construed as a recommendation to buy or sell a security or to provide investment advice.

Performance information is historical and should not be considered representative of current conditions or predictive of future results. All securities investments fluctuate and involve risks. Foreign securities may involve additional risks, including but not limited to changes in currency rates and the application of foreign tax laws, as well as changes in government, economic, and monetary policy