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"serving morally responsible investors"

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MARKET

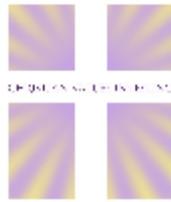
Investors have just experienced the best market quarter in a decade among the worst ever for earnings. The stock market is usually a pretty good predictive mechanism for the economy. If it is correct, get ready for one strong recovery over the next nine months. The S&P 500 gained 15% in the second quarter, its best performance since the fourth quarter of 1998. Year-to-date the S&P 500 index is up 17% -- which normally would be considered a healthy rise, except that the index plummeted 38.5% last year amid the global financial-system meltdown. The S&P is up 56.2% from its 12-year low on March 9, but it's still down 32.5% from its all-time high of 1,565.15 in October 2007. Meanwhile, earnings for S&P 500 index plummeted on average by 35 percent during the second quarter of 2009.

It's been a year since the fall of Lehman Brothers, the legendary investment banking firm that was forced to declare bankruptcy following an unsuccessful bid for a government bailout. Its failure triggered a massive selloff on Wall Street that eventually pushed the S&P 500 index to the 666 level in early March 2009.

Though these types of market events are rare, they do occur, and it's both surprising and awe-inspiring to witness global wealth destruction on such a grand scale. What can savvy investors learn from such scenarios?

First, steep market sell-offs and the explosive rallies that often follow are excellent examples of how difficult it is to buy bottoms and sell tops. Adding to a losing portfolio seems insane when everyone around you is panicking. In addition, selling when everybody else is in a buying frenzy seems ludicrous. Many individual investors still have not re-entered the market. What looks easy playing Monday morning quarterback is often much more difficult in the real world.

The importance of diversification was certainly well illustrated last year. As all risky assets crumbled in price, while long-term Treasuries had a real good year gaining over 30% in value. Having all of one's eggs in one basket can be devastating when that basket eventually succumbs to the laws of financial gravity. Ecclesiastes 11:2 (NLT) says, "But divide your investments among many places, for you do not know what risks might lie ahead."



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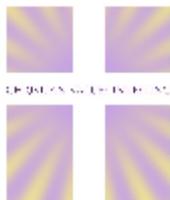
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A final important lesson is to properly gauge your risk tolerance. All suffered in 2008, but that merely set the stage for this year's recovery. Investors who bailed out of the markets in the fourth quarter of 2008 or the first quarter of 2009 aren't likely to get their principal back for a long time.

I'm starting to hear chatter that the U.S. dollar might push our current bull market back into a bear. Many commodity brokers and investors are proclaiming "buy gold before it is too late." The drop in the U.S. dollar helped preference the start of the bearish market twelve months ago. A good measure of the dollar's true value is the U.S. Dollar Index: a weighted geometric measure of the value of the dollar against a basket of foreign currencies including the euro (EUR), Japanese yen (JPY), Pound sterling (GBP), Canadian dollar (CAD), Swedish krona (SEK) and Swiss franc (CHF). The U.S. Dollar index was developed in March 1973, after the gold standard was scrapped, and its value is a reflection of the value of the U.S. dollar now, compared to what it was worth then. A read of 75.00 on the index equates to the U.S. dollar value being 75% of what it was three decades ago. At the close of the quarter the index read 76.66.

Currently, the U. S. Dollar index is near its all time low. The lowest was in the first quarter of 2008 (the start of the previous bear market). The once strong and mighty U. S. Dollar is now looking weak and sick. It will continue to look this way as long as the Federal Reserve keeps interest rates low. In addition, it will remain weak as long as our elected officials fail to keep the huge budget deficit under control; which is now standing at \$1.3 trillion. The deficit along with low interest rates will continue to be the major drag on the value of the U.S. Dollar.

Job losses continued during the second quarter and the unemployment rate continued to trend up. The Labor Department reported that the unemployment rate hit 9.8% in September. Some pundits believe the unemployment rate will hit 10% by the end of the year. Historically, unemployment figures tend to lag about six months behind Wall Street performance. As difficult as it is to experience, unemployment is a necessary and healthy part of an economic recovery process that follows the bursting of the bubbles of an economic boom. The recovery will probably remain fragile for at least another six to twelve months.



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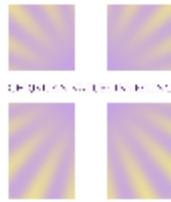
MODEL PORTFOLIOS

Most of you know may not be aware that we compare our model portfolios against the FTSE KLD 400 Social Index (Domini). The Domini was launched in May 1990 and it is the first benchmark index constructed using environmental, social and governance (ESG) factors. It is a widely recognized benchmark for measuring the impact of social and environmental screening on investment portfolios. The Domini has outperformed the S&P 500 for the past one, three, five, and ten year periods. Even since its inception, the index has outpaced the S&P 500. This is proof that screening does not hinder performance.

Like last quarter, our model portfolios continue to outperform their comparable indexes. We are seeing strengths in several industry groups that make up our models. These include materials and information technology. We are seeing some weakness Telecommunication Services, and Utilities. We looked at buying gold over the last three months, but we just could not bring ourselves to pull the trigger. Gold was up over eight-percent for the quarter while the S& P 500 was up fifteen-percent. Likewise, we considered taking a position in crude oil, but the volatility was more than we could stomach. In the future, inflation may cause us to move to a more defense position. When the economy starts picking up steam; investment vehicles such as precious metals and Treasury inflation-protected securities, will be a good defense move.

CONCLUSION

We believe that the recession has ended, and economic data is improving. We remain concerned about the rate of expansion after the recession. The strength of economic growth will impact the strength of earnings growth so the type of recovery we get is an important issue. We believe that company earnings, while still less than a year ago, will probably beat estimates, but that guidance could be soft. Going forward we intend to find strong companies that have exceptional appreciation potential. We will also keep one eye on controlling risk through diversification. We expect continued market volatility and will position our portfolios accordingly. We are grateful to have thrived so far in this environment and will continue to execute our strategy. Also, a current copy of our ADV is available upon request.



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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
- 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

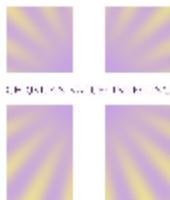
3. We have *compassion for those addicted and/or engaged in sinful lifestyles* so we screen out companies involved in:

- 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:



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- 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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