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MARKET

Halloween is around the corner and many investors including money managers are spooked by the challenging economic picture and the continued bad dreams of the financial crisis of 2008. Many appear almost oblivious to the fact the U.S. stock market is on a tear. U.S. stocks closed out the third quarter of 2012 posting strong gains: the Dow closed Friday up 4.3%, the S&P 500 gained 5.8%, and the NASDAQ rose 6.2%. Year-to-date, the gains are even more impressive: the Dow is up 10%, the S&P 500 is up 15% and the NASDAQ has surged 20%. The big question is, can the rally continue into the fourth quarter?

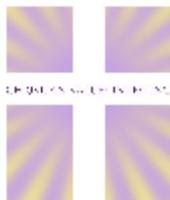
Even after 43 months of a bull market run, most investors still can't get over the severe beating they suffered in 2008. The current investment environment reminds me of 1988 & 89 when investors were still shell shocked after "Black Monday" (October 1987). It took the start of the Persian Gulf War to turn investor thoughts. Unlike today, during the late 1980's we did not have a 24 hour news cycle that kept the crisis front and center, just like a recurring nightmare.

Despite all the anxiety about the euro, Iran and U.S. politics, those worries are exactly why stocks are up. U.S. investors are scared, and the ongoing reminder of the financial collapse of 2008 continues along with the Euro Zone monetary problems. In contrast, investors around the world feel that U.S. stocks look pretty good compared to some of the alternatives. However, those factors are keeping the market up in the face of some really questionable economic data and questionable behavior by the Federal Reserve.

Many investors and money managers believe that the Fed is manipulating the market for the benefit of the few including keeping the current U.S. President elected. They realize that the Federal Reserve has intervened four times to try to steer investors back into the stock market toward riskier assets. So far, the individual investor has boycotted.

The reality is that the fundamentals of the market certainly don't support a 15 percent run-up on the S&P 500, but QE (quantitative easing) has had a huge impact in pushing the market upward.

We believe the coming months hold a series of difficult challenges for markets, including third-quarter earnings season, which is expected to show the first drop in earnings since 2009, the U.S. presidential election in November, and the upcoming "fiscal cliff" crisis.



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PERSONAL MESSAGE

Originally written by John Grant, Published by Truth Media Network, published in "Power to Change," September 24, 2012. Copyright 2012

What is Your Source for Financial Wisdom?

"For what will it profit a man if he gains the whole world and forfeits his soul? Or what will a man give in exchange for his soul?" (Matthew 16:26, NASB)

In a down economy, many people are searching for advice on how to manage their finances. But whose advice do they trust? Many would be surprised to find out that the Bible has about 2,300 verses dealing with money, more than four times the number of verses that deal with prayer.

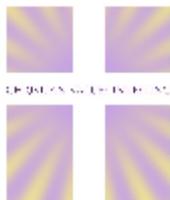
A number of years ago I was in financial distress and was amazed at what the Bible had to say about it. Yet, a new study shows more Americans are willing to take advice from Donald Trump, a man whose companies have filed for bankruptcy at least four times, than from the Bible, the best selling book of all time. Some eighty-six percent said they do not follow the Bible about money management.

The Bible has a lot to say about money, wealth, greed, contentment and a variety of other topics as they pertain to our financial and spiritual lives. One of Satan's most effective delusions is the idea that happiness consists in the things that we possess. Through his deceitfulness, he has erected a golden calf, an idol called materialism. Like a barker on the midway, he calls to every passerby.

Christians, though a people with a spiritual calling and heavenly assets beyond compare, are not automatically exempt from Satan's schemes, nor inoculated against infection from the deadening disease of materialism. Everywhere the seductions of materialism fill the air and seek to come into our lives through both conspicuous and subliminal messages. If we are not on guard, Satan will distract us through possessions from our heavenly calling as a people for God's own possession.

Jesus made it clear that a mark of true spirituality was a right attitude toward wealth. The mark of a godly and righteous man is his preoccupation with God and heavenly treasure. Good Christian stewardship begins with our understanding and confession that God owns it all.

Lord, I confess that I get worried about my finances and don't always trust you to provide. I confess that you are the owner of my life and my finances and I give you control of it. Help me to give up my control over my money. In your name, Amen.



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MODEL PORTFOLIOS

In January of this year, we decided to take a defensive investment strategy. This strategy was designed to preserve assets. The thought being we would sacrifice returns on our model portfolios in order to minimize market risk. This defensive position was done by moving assets into cash and cash equivalents. Looking back, we moved too quickly.

We sensed that markets were likely to go lower because of the anxiety about the euro, Iran, and U.S. politics. So, we raised our overweight cash positions by reducing our exposure in some lagging companies.

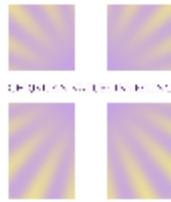
During the past three quarters, the stock market had many spurts up and down, falling as much as 10% and the rising back up and steaming ahead 15%. At some stage, equities are going to be a buy, and we would like to have as much firepower as possible to take advantage of the inevitable lower prices.

CONCLUSION

We have changed our thoughts on the fourth quarter. In our last newsletter dated July 1, 2012, we expected a pullback in the market before the fourth quarter. Since this did not happen, we now believe it to happen before the end of the year. We expect the "fiscal cliff" to push the market lower in the fourth quarter, and we recommend selling stocks that have lagged so far this year. We also believe the S&P 500 could fall sharply after the election when investors finally realize that there is a possibility that the so-called "fiscal cliff" will not be resolved smoothly. The majority of investors expect to see the fiscal cliff avoided in the lame duck session of Congress, but CVI sees only a slight chance that Congress will address the issue. The so-called "cliff" is the slam the economy would take from the expiration of Bush-era tax cuts and the automatic spending cuts that will hit the budget Jan. 1 if Congress does not act. We expect the S&P 500 could pull back to 1250 and the Dow Jones 30 could pull back to 12,100 by the year end 2012.

For now, the stock market should continue to move sideways. However, our sense is that the last quarter of the year could take away much of the gains of the first nine months.

Looking ahead, there are continued head winds for the market for the rest of the year. We expect trouble for the market during the last quarter of 2012 as profit growth for the third quarter is expected to slide. But the economy could continue to grow slightly until 2015. 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:

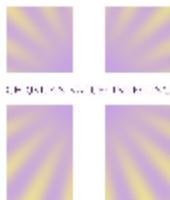
- Alcohol, Gambling and Tobacco
- Pornography
- Homosexuality

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:

- Honesty, Compassion, Diligence, Prudence and Creativity



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- 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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