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MARKET

Despite continued uncertainty about the health of the global economy and the future of monetary policy, U.S. stocks retook all-time highs in the third quarter before pulling back slightly in September.

The market's focus was squarely on the Federal Reserve again this quarter. At its September meeting, the Fed chose to keep in place its current program of purchasing mortgage-backed securities. This was seen as a major surprise given that the central bank had spent the last several months hinting that a taper was imminent.

As the fourth quarter of '13 begins, investing risks loom starting with a government shutdown. Congress was gridlocked in trying to pass bills to fund the government and to raise the debt ceiling. A shutdown or a breach of the debt ceiling could have an impact on economic growth in the fourth quarter.

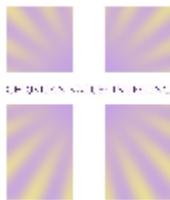
The U.S. economy continued its slow but reasonably stable growth in the third quarter. Manufacturing is strengthening on the back of better auto sales, and consumer spending has held up. There have been some signs that housing is weakening while mortgage rates rise.

The fourth quarter of 2013 kicks off with Wall Street facing a spate of headwinds that could make for a rocky October.

The Standard & Poor's 500-stock index posted a gain of 4.7% the three months ended Sept. 30, extending its year-to-date gain to 17.9%. The Dow Jones industrial average rose 1.5% in the third quarter, and the NASDAQ composite gained 10.8%.

All stock sectors turned in positive performance for the quarter, with nine out of 11 sectors posting double-digit returns. Technology (up 33%) was by far the best performer. Excitement over social-media companies' results and continued interest in mobile platforms and devices drove shares higher. Consumer cyclical stocks were up 16% while basic materials shares rebounded 15% during the past three months after lagging for some time. Real estate (up 6%) and consumer defensive (up 7%) were the worst performers.

The positive returns were driven in large part by a trio of unexpected positive developments in September. The Federal Reserve delayed its plans to start trimming back on its monthly bond-



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buying program. President Obama opted not to strike Syria to punish it for allegedly deploying chemical weapons.

Also, the decision of ex-Treasury secretary Lawrence Summers to take himself out of the running to succeed Fed Chairman Ben Bernanke in January was also viewed bullishly. A Summers-led Fed would have been perceived as less market-friendly because investors thought he would wind down the Fed's bond-buying program more quickly than current Fed front-runner Janet Yellen, vice chair of the Fed's board of governors.

Still, fresh threats, ranging from political gridlock to questions about the future profitability of U.S. companies, confront investors as we enter into the fourth quarter.

PERSONAL MESSAGE

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Remember the Lord

"Why am I discouraged? Why is my heart so sad? I will put my hope in God! I will praise him again my Savior and my God! (verse 5)

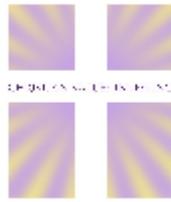
"Now I am deeply discouraged, but I will remember You." (verse 6)

"But each day the LORD pours His unfailing love upon me, and through each night I sing His songs, praying to God who gives me life." (verse 8)

Have you ever walked through a difficult time and cried out to the Lord for encouragement? King David often cried out for encouragement from the Lord. The Psalms are full of David's cries for the Lord to have mercy on him and to lift him out of despair.

Often, David would begin his Psalms in distress. He would take his struggles and his fears and lay them at the Lord's feet. What is different, however, is that David transforms his prayer into a time of praise and thanksgiving. He doesn't allow himself to be paralyzed by his plight; rather, he takes it as an opportunity to remember how great God is. His attributes, His faithfulness, His power and glory.

Every follower of Jesus will face challenges. There will be times of despair and discouragement that will threaten us, but like David, we need to remember God. Remember the



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Lord and what He has done in your life. He will bring encouragement. He will work in your life and build and strengthen your faith. He will mature you so you can help others stand strong in following Him as well. How has God been faithful to you in your life?

Heavenly Father, I choose to put my hope in You. I choose to praise You for You are my Savior and my God! Though I have times of discouragement, I will remember You. Please help me this day to remember Your blessings and what You have done in my life so far. I thank and praise You for Your faithfulness! In Jesus' Name, Amen!

Action Step: Lift up your eyes in prayer and remember your God. Remember that He is sovereign, He is all powerful, and He never changes. Remember, He is *Your Savior and Your God*. Recall times of His faithfulness, provision, blessing, encouragement, and strengthening. Then, find an opportunity to share these insights with at least one person who needs encouragement today.

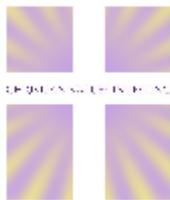
MODEL PORTFOLIOS

As stated in our last update, if the market continues strengthening, we expect to start buying back stocks by the end of October. Those who have followed our market letter over the last 7 years have been able to see some very positive results with our existing model portfolios: **The Faith, The Hope, The Sanctuary, The Joseph, The David, The Solomon, The Refuge, and The Trust Portfolio.**

Each has a unique focus and different investment criteria, but they have had a wonderful run up till April of this year. As you know, we went mostly to a cash position in six of our eight portfolios during mid-April.

Since April, we have not seen value in the market. However, nothing is risk free. It is our current opinion that being out of the market is more risky than staying in the market.

While our initial goal in April was to have gotten back in the market once a correction takes place. It does not appear that if the market gets through October with a correction, one may not be coming any time soon.



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We will monitor our portfolios the same way we done in the past. When it looks like there is a potential for a correction (little or no value), we will start taking a defensive position.

CONCLUSION

We have been bearish on stocks since the second quarter, even as we have watched the S&P 500 add 8.5 percent. Fundamentally, we believe the S&P 500 could retreat to early January levels.

Fundamentally, the S&P 500's price-earnings multiple has risen from 17 on Jan. 1 to nearly 20. That means the market has largely been rising due to investors' willingness to pay more for those earnings. Emotions rather than earnings has driven the market upward. The upward momentum has been caused by the amount that investors are willing to bid up the value of the future earnings stream. In addition, the 10-year Treasury rate has moved from 1.6% in May of this year to the 2.65% range. The rate increase is a potential tremendous shock over the next six months for stocks. Historically, stocks tend to follow rates over time. A one-percent move upward in Treasury rates, should bring about a contraction on stocks of about 10%. In addition, when the multiple of the S&P 500 climbs over 20, historically the market is ripe for a correction.

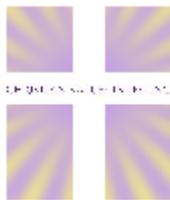
On the other hand, unless bonds can actually rally substantially, this most likely will be caused by a potential prolonged Government shut down. Such a shutdown would reduce fourth-quarter economic growth significantly. Some economist think as much as 1.4 percentage points depending on its length. With the potential of slower growth, the Federal Reserve may see the need to stimulate the economy by keeping interest rates low while keeping their bond-buying intact. However, our opinion is that a prolonged government shutdown will not happen.

Couple the rise in rates with slow earnings growth, we believe the market is in for a 20% correction. It is a possibility that the market is going to have to face the music in October.

Conversely, if the market can stay strong through October, we will start back investing in stocks. Long-term, we believe being out of the market is more risky than staying in the market. 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*



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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:

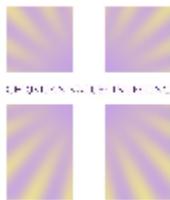
1. We desire **justice and mercy for the defenseless** so we screen out companies involved in:
 - Abortion
 - Life destroying or distorting scientific research
 - Human rights issues such as religious persecution, terrorism and political oppression
2. We desire **justice and mercy for the poor** so we 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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