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MARKET

The biggest Market news for the third quarter was the scramble to purchase American dollars and the rise in currency volatility. These developments have intensified worries that the final three months of the year might be more bumpy than usual.

The dollar's 7-percent surge was its biggest quarterly rise since the same period in 2008, when the collapse of Lehman Brothers triggered the global financial crisis and a worldwide rush into the U.S. currency.

The dollar hit a four-year high against a basket of major currencies, putting the greenback on track for its biggest quarterly gain in six years, and a two-year high against the euro. The strengthening dollar and sliding commodity prices have hit energy and industrials shares hard over the current quarter. Utilities have also lagged behind, hit by the upward drift in market interest rates, led by short-dated Treasury yields rising to peaks last seen during May 2011.

Interest rates are likely to be higher a year from now. Long-term interest rates, will remain below long-term averages. Slower economic growth in the next 18 months will be the primary reason for subdued interest rates.

For the quarter, the Dow rose 1.3 percent, the S&P 500 gained 0.6 percent, and the Nasdaq climbed 1.9 percent. Bright spots have been healthcare, technology and financials, all handily outperforming the broader market's modest gain since the start of July.

Most investors and strategists think the stock market is ripe for a correction. The S&P 500 has gone 1,090 days without a 10% drop. The current stretch is the third longest in the past 25 years, according to Mr. Jonathan Golub, chief U.S. market strategist at RBC Capital Markets. Since October 2011, when the S&P 500 was wrapping up a five-month, 19% decline, the stock index has rallied 80% without a 10% correction getting in the way. In the past 25 years, there have only been two other stretches in which the market was more resilient than it is now. From 1990 through 1997, the S&P 500 went 2,573 days without a 10% drop. And in 2003 through 2007, the stock index went 1,833 days without such a decline.

As the Fed ends QE3 in October, the big concern is what will happen when QE3 officially ends. The S&P 500 fell 17% when QE1 ended and dropped 22% when QE2 ended. The current



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environment in today's stock markets are overextended and overvalued. That means a correction or even major selloff is long overdue to rebalance sentiment. The best case scenario is you are bullish is for a major correction approaching 20% like at the ends of QE1 and QE2. But if the bears are right, a new cyclical bear market could ultimately cut stocks in half.

PERSONAL MESSAGE

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When Fear Disappears

"Then Peter stood with the Eleven, raised his voice and addressed the crowd" Acts 2:14b

I remember as a shy, quiet kid, wishing I could stand up to people with different opinions. I was so fearful of what people thought of me that I wouldn't risk stating a different viewpoint.

Even as an adult, I face times when I have to decide if I believe something strongly enough to stand alone in my beliefs, especially when the stakes are high. Living a godly life when others around me are not can be hard. Sometimes a job or a friendship is at stake. In some parts of the world, loss of family or loss of life are real dangers when going against the established authority.

The Apostle Peter gave in to his fear when he denied that he knew Jesus. Though he had been a close, trusted friend to Jesus, Peter feared being associated with a man whom the authorities considered a criminal.

Yet just a short time later, the book of Acts records Peter speaking to crowds of people, accusing them of killing the Son of God and calling them to repent and follow Him. (Acts 2:22-41) A little



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while later, Peter and John stood before a council of Pharisees (Acts 4:1-20) and spoke boldly about what they had seen and heard.

What brought about the change? Where did this boldness come from that replaced Peter's fear? It came as a result of the filling of the Holy Spirit. Peter addressed the crowd after the Holy Spirit arrived at Pentecost. (Acts 2:2) He spoke to the Pharisees while being *"filled with the Holy Spirit."* (Acts 4:8)

When the Spirit of God is present, fear is overcome by boldness as we step out in faith.

Lord, fill me with Your Holy Spirit that I may live a godly life and proclaim Your Word with boldness.

Take Action

Write down an area of your life where you wish you had more boldness. Pray for fresh empowerment by the Holy Spirit so you may walk in confidence.

MODEL PORTFOLIOS

During the third quarter, with the looming fears of a strengthening dollar, and a rising interest rates, we have not yet become fully invested. Also, consumer confidence and sentiment posted a gain in September due to more favorable prospects for the domestic economy as well as more favorable personal income expectations. The consumer confidence index is at the highest level it has been at since 2007, just before the crash. We believe in the upcoming months the index could possibly go higher. Usually consumer confidence and consumer sentiment peaks before a market correction. We believe the market will go lower sometime in the upcoming months and it will give us a buying opportunity.

Five of our model portfolios have been in a 30% cash position since mid-January. In our last newsletter (July), we mentioned that we believed that the market is over-valued and we expect a market correction sometime in the near future. Like the previous newsletters, we are not attempting to call the top of the market, nor are we trying to predict that higher inflation will



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show its ugly head. What we were trying to do is look for value in the market. Currently, we see very little value. As soon as we see a trend reversal we will prepare to get back fully invested.

CONCLUSION

We believe that the market is fully valued at the end of the third quarter. This evaluation is supported by the Shiller price/earnings ratio, which stands around 26.5. Shiller uses a 10-year average of real (inflation-adjusted) earnings in the denominator. Historically, Shiller P/E ratios above about 25 have been associated with poor subsequent five-year total returns and an elevated risk of a market correction. Currently, the Shiller P/E is sitting above the 70th percentile relative to the past 25 years. This points to poor expected returns and an elevated risk of market correction.

According to Matthew Coffina, CFA, editor of the Morningstar Stock Investor newsletter, "The Shiller P/E has been this high only three times in history: during the lead-ups to the 1929 market crash, the 2000-02 dot-com crash, and the 2008-09 financial crisis. Historically, Shiller P/E ratios above about 25 have been associated with poor subsequent five-year total returns and an elevated risk of a material drawdown, as can be seen in Exhibit 1."

Exhibit 1: Shiller P/E and Subsequent Annualized Total Returns
Dec. 1988-June 2014

Percentile	Shiller P/E Range	Avg 5-Year Total Return %	5-Year Total Return Range %	Avg 5-Year Max Drawdown %
0-20	12.9-19.7	14.9	8.7, 23.0	-5.8
20-40	19.7-21.8	21.3	7.0, 28.6	-5.0
40-60	21.9-25.4	11.4	0.8, 25.3	-15.3
60-80	25.5-28.1	2.9	-6.6, 18.4	-32.4
80-100	28.1-45.5	0.9	-3.8, 10.1	-28.6

Sources: Robert Shiller, Morningstar

However, that doesn't mean the market is necessarily headed for a mass sell-off or crash. Nor that the economy is headed for major inflation. First, if contrarians are correct, we could have several more months of growth before the correction begins. A market correction (not a crash)



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would be very healthy and welcomed at this time. Second, we could have a sell-off that could make the P/E ratios look more favorable.

Even so, we advise our clients to moderate their return expectations. The phenomenal returns of the past five years were driven by the recovery in earnings and P/E multiples from the depths of the financial crisis. Such high returns are not sustainable when starting from current valuation levels.

A copy of our current 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
- 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:



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- 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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