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MARKET

Since late August, equity markets have been volatile and this trend shows few signs of abating in the short term. We believe three issues are unsettling markets:

- Economic uncertainty in China and, in particular, the ability of the Chinese authorities to engineer a "soft" economic landing.
- The weakness in commodity markets, especially oil.
- Monetary policy uncertainty, as the Fed moves towards its first interest rate rise since 2006.

After an unprecedented 1,000-point decline at the open on Monday August 24th, the Dow closed with a loss of 588 points. Global fears about China's economic slowdown were shaking stock markets around the world. With this selloff, the S&P 500 is now sitting in "correction" territory - a 10% decline from its recent peak.

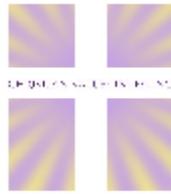
A global economic slowdown is eating into demand for oil at a time when supplies remain extremely elevated. In late August, crude oil plunged below \$39 a barrel the first time since 2009.

The S&P 500 has fallen 5.29 percent this year, badly underperforming Wall Street expectations. If stocks close the year around this level, it will be the first time that the S&P has missed strategists' targets since 2008.

Major Wall Street strategists began 2015 with a median year-end S&P 500 target of 2,225, which would imply an 8 percent gain for the S&P. None expected stocks to fall in 2015. This followed years in which the S&P rose more than the Street estimated, sometimes powerfully, such as in 2013.

But at the end of the third quarter, the S&P 500 closed at 1920, which is rather dramatically below that consensus call.

This year's underperformance has come even as a presumptive rate rise from the Federal Reserve has been pushed further off. Many of the strategists missed their mark due to continued low energy prices. Because of low energy prices, the earning growth of the S&P 500 has not reached expectations. The S&P 500 is fairly heavily weighted in energy companies, and it shows just



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how important the price of oil is to the S&P 500. Since oil prices have been in a free fall, this will make it even tougher to predict where stocks will end the year.

In our view, we believe interest rates will continue to be low for some time. However, the Fed is likely to raise interest rates in the coming months in response to tighter labor markets. We believe Fed policy will continue its attempt to expand the overall money supply to boost the economy by encouraging more spending from consumers and businesses while keeping interest rates artificially low.

PERSONAL MESSAGE

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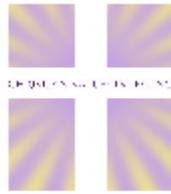
What do you do when the roof falls in? I hate failure and disappointment. Why does God allow these things to happen to me if He's really in control?

God often allows failure to point us to one critical truth... we can't live the Christian life on our own. Throughout our lives, there will be times when God will place us in situations that will cause us to realize our insufficiency and make us depend on Him. Only Jesus has lived perfectly the Christian life and if anything of eternal value is going to be accomplished through my life, He is going to have to do it!

2 Cor. 4:17,18 says, "For our light and momentary troubles are achieving for us an eternal glory that far outweighs them all. So, we fix our eyes not on what is seen, but on what is unseen. For what is seen is temporary, but what is unseen is eternal."

Earlier in this book (1:8) Paul says, "we were under great pressure, far beyond our ability to endure, so that we despaired even of life." When Paul speaks of "light and momentary troubles", we know that actually his trouble was severe, BUT in comparison to what was being gained and accomplished in his life and ministry – it was insignificant. In fact, he says, it "far outweighs them all." What a perspective! How do I get it?

Recognizing that God has allowed or placed me in the situations I'm in to add to my character something of eternal value is the first step to dealing positively with failure or disappointment. I need to believe that this particular situation is His special way of performing His refining work in my character and accomplishing in me that which will far outlast what is presently disappointing me. He is using this situation to teach me how to walk by faith and to



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equip me to make eternal investments in the lives of others. Romans 8:29 clearly states that every situation has the effect of molding us into Christ's image and I Cor. 1:4 explains how our ministry is made more effective by experiencing trouble! Circumstances are not out of control but are used for our good in the hands of a loving God!

We become bitter to the degree we don't give thanks to God. Purpose to focus on what He has given rather than what is gone. Choose with your will, not your feelings, to form a habit of giving thanks often remembering that He is in control and is working in your life to produce that which is precious and which will not fade away but will last for eternity.

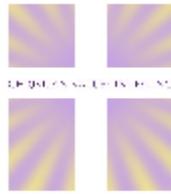
MODEL PORTFOLIOS

As most of you know, all of our model portfolios had been partially in cash. For some time, we have taken 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. So far, the first nine months of the year, our portfolios have outperformed the markets. Currently, we believe the market will consolidate (move sideways) until the Federal Reserve makes a decision on interest rates. During the next couple months, volatility will continue and buying opportunities will erode. We do expect the Fed will raise interest rates in December, unless something dramatic happens during October & November.

Rebalancing and tweaking our models is a main priority for the quarter ahead, however: We will hold a large allocation in cash until we see value in the market. We will continue with this strategy until we see value.

CONCLUSION

It has been seven years since the world's central banks responded to the financial crisis by slashing interest rates. Many economists projected at that time, the Federal Reserve's move to lower interest rates to nearly zero would turn the economy northward causing the Fed's to reverse their decision as early as 2013. They were wrong. When the Fed first hinted that it might taper its monetary expansion policy, also known as quantitative easing, investors were jolted by the "taper tantrum" of 2013. This is when global markets violently reacted to the Federal Reserve's hint to curtail quantitative easing. We believe history will repeat when the Fed finally announces they are raising interest rates.



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Below are five reasons we believe the Federal Reserve hasn't increased interest rates. Depending on how aggressively they increase interest rates, will determine the severity of each.

1. Construction projects financed by low interest rates would be deferred or aborted
2. Debt payments would increase, companies profit margins would get squeezed, companies would have to tighten their spending
3. Housing prices would decline
4. Stock/Share buy-backs financed by borrowing would slow down or come to a stop.
5. Bonds become more attractive relative to stocks, causing people to shift money into bonds, and stock prices to fall

The net result will be a fall in stock and home prices making people feel poorer. A rising interest rate environment will also cause a rise in unemployment due to the slowdown in corporate spending. So in all, when interest rates are raised, you would get a slowdown in the economy and possible recession if the Federal Reserve is too aggressive.

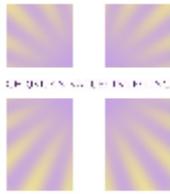
The Federal Reserve indicated in June, following a meeting of its policy committee that it plans to raise interest rates even more slowly than its officials had previously predicted. Janet L. Yellen, the Fed's chairwoman, said, "Borrowing costs would remain low for years." In other words, interest rates will remain low for years to come helping the stock market not to panic when the Feds finally pull the trigger.

In conclusion, we believe a correction in the stock market will bring financial markets closer to what's justified by fundamentals. Therefore, there will be less of a risk of a financial collapse down the road. If this correction is initiated by the Fed's raising interest rates—let it be!

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



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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:

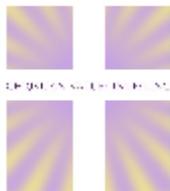
- Entertainment that seeks to destroy biblically-based attitudes
- Efforts to promote lifestyles the Bible indicates are sinful

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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