American Values Investments

SERVING VALUES~FIRST INVESTORS

The American Hero Newsletter - April 2008

Our mission: Transform culture by inspiring values in the marketplace

Might for Right

Carter LeCraw, CEO

I distinctly remember, as a teenager, pensively lingering in the Fox Theater in Atlanta, Georgia after viewing the original musical version of the movie, Camelot (released in 1967). I was young, idealistic and intrigued with the notion of a society built around values like truth, justice, kindness, humility, forgiveness and other laudable virtues. King Arthur even devised a round table for his ruling body so as to symbolize the equality of all present. I was so taken with the movie I even memorized words to several of the songs.

At the end of the movie all seemed lost and the country was being torn apart as a result of a breakdown in values and a refusal of some to forgive others. King Arthur exhibits forgiveness but many did not and the king was despondent at the plight of the kingdom, until one small boy gives him hope. The boy clearly repeats back to a pleasantly surprised King Arthur the ideals under which Camelot was conceived and shows an incredible desire to follow these principles. Arthur realizes there is hope because of this boy and encourages him to tell future generations to "not let it be forgot, that once there was a spot, for one brief shining moment that was known as Camelot".

A central idea within Camelot was the concept of "might for right". This idea of this ideal stuck with me for years and, looking back on it was, most probably, one of the founding concepts of the company I started, American Values Investments. Investment capital is the "might" and "American values" is the "right" imbedded in our company mission and vision. There is little doubt that the trillions of dollars that represent the worth of all investment capital is extremely (but not supremely) powerful and can be used for either good or ill. Why not use this "might" for "right" by finding and supporting the best examples of American values in corporate America by way of stock ownership and other means?

It can get pretty discouraging when the "bad guys" use their "might" to perpetrate bad stuff, especially when they do it at the expense of the good guys. But, in actuality, there are many good guys in corporate America (none perfect) trying to use their "might for right" and we have been privileged to find and invest in some of these good corporate citizens. Some have done well, others not so well, but ALL are trying to contribute positively to our culture.

I am also encouraged and deeply grateful to see so many investors willing to support our "might for right" vision by investing their personal assets with us. (We now have over 500 family units we are privileged to call our clients.) It demonstrates there is hope for the investment industry and that it does NOT have to be ruled by a relentless pursuit for the last penny of profits or investment return. Also encouraging is that a "might for right" investment strategy CAN have competitive returns to reward "Values-First" investors as evidenced by our recently updated portfolio performance figures listed on page two.

Our research team continues to find new American Hero Companies and, at latest count, is up to 110. Hundreds of man-hours have been used to filter through literally thousands of stocks in order to uncover these exemplary companies. It is from this universe of stocks our investment committee builds various portfolios to address different risk parameters of our clients.

The "might" of our firm may be small (about 50 million in assets) compared with the billions of financial giants like Vanguard, Fidelity and Merrill Lynch. Nevertheless, I trust we are at least somewhat meaningful to the companies we support (invest in), the clients we serve, and the country (whose culture we are trying to influence) we love.

People want to be part of something greater than themselves.
They want to do something that makes a positive difference in the world.
Dennis W. Bakke, Founder, AES Corporation and author of Joy at Work

Investment and Market Commentary

Russ Miller, CFA, Chief Investment Counsel
April 2008

Investment Commentary

Following is the performance of our models, less fees and expenses*. The S&P total return figures are figured for year to date and cumulative as of 3/31/08.

	Year to Date Jan - Mar 08	Inception to date	Inception date
Equity	-9.73%	+38.14%	4/30/04
Equity Plus	-7.87%	+43.24%	4/30/04
Balanced	-5.22%	+34.44%	4/30/04
Conservative	-2.69%	-2.69%	12/31/07
Defensive	-.37%	-.37%	12/31/07
S&P 500 TR	-9.45%	+27.08%	04/30/04

Amid the market turmoil we recall our key investment objective – seek a good, long-term, risk-adjusted return. A brief review of our investment approach is helpful.

Since we believe, based on extensive research, that time in the market is more important **for long-term return** than timing of the market, we are fully invested. To reduce risk / volatility (i.e., good risk-adjusted return), we use diversification and stock selection.

All portfolio candidates are from the expanded list of 110 American Heroes, which meets Values-First criteria. They excel in positive American values and provide needed products and services.

We seek Hero stocks with historic growth that is both good and stable, since this growth probably reflects an attractive combination of management and market pluses that are likely to continue. The portfolio is diversified with the best stocks in each of at least the 7 largest S&P 500 sectors; at least 50% and no more than 200% of the S&P 500 sector weighting are the limits. Also, we seek undervalued stocks.

Performance exceeded the size-weighted benchmark for over 60% of the months in the last four years and the cumulative performance is well above the benchmark. Our performance lagged behind the benchmark slightly in the first quarter and in two of the three months.

Our expected portfolio changes reflect our desire to resume our prior record of outperforming the benchmark. The following market commentary helps frame the subsequent discussion of our investment management.

Market Commentary

All markets declined in the first quarter. The decline in March was especially sharp. We noted in the January letter that the first quarter / half was likely to be rocky as the economy seemed to be entering a recession. This perception was accurate. The negative impact of the deflating of the two bubbles (credit and housing) together with the continued decline in the dollar adversely affected both the economy and the stock market.

Yet there was some good news. Despite the sharp March decline in most indexes, the leading indicator Dow Jones Transportation was well above its mid January low. Also, the Federal Reserve and US government took steps to cushion the economy, such as by lowering interest rates, injecting large amounts of money into the economy and giving taxpayers money to spend.

Barton Biggs (former head of equity at Morgan Stanley) wrote about the uncanny historic ability of the stock market to anticipate good news by 6-12 months. Accordingly, we think the current economic news is likely to reflect economic turmoil in the second and possibly the third quarter. However, we also think the stock market is likely to be higher later in 2008, reflecting a better economy in 2009.

Investment Management. During the first quarter market turmoil, we conducted our in-depth annual strategic and tactical review. We made three major decisions.

First, Two New Portfolios. We added two new asset-allocated portfolios (Conservative and Defensive). They have higher debt and lower stock weightings. They meet clients concerns about weak markets with portfolios that better resist the decline.

Second, Stock Changes. The Investment Committee approved 9 American Hero stock, 1 REIT and 2 bond fund changes among the 28 stocks, 6 REITs and 3 bond funds, respectively, in our model portfolios. All nine stocks were in companies that have recently gained American Hero status as a result of the fine work of our dedicated research team lead by Benny Van Huss. The REIT change reflected a values change. The bond fund changes reflected the lower costs of ETFs than mutual funds. These model portfolio changes will be implemented in an orderly way this quarter.

Third, Market Trends. We are putting in place tools to monitor market information that will help us make minor, but potentially valuable portfolio changes to improve short-term performance. Our long-term, buy-and-hold approach will continue to under gird our investment management. Yet, we also recognize that timely decisions on a few stocks can improve performance.

In conclusion, we are encouraged at the relatively good performance of our American Heroes during the first quarter market turmoil. The record affirms that Values-First investing enables clients to align their investments with their traditional American values while earning a good long-term return.

Questions and comments are welcome by all at American Values, including the Investment Committee – George Parks (Committee Chairman), Carter LeCraw (firm President) and Russ Miller, CFA (Chief Investment Counsel).

* For estimated fees and expenses we deduct .525% quarterly for stock portfolios and .30% quarterly for mutual fund portfolios. Fees for specific accounts may vary depending upon various factors including size of account, type of account, timing of contributions or other factors. For more information on how fees are calculated and charged clients may contact their investment advisor representative or see our disclosure document, form ADV part 2.

***Note:** Please contact your advisor if there are any changes in your financial situation or investment objectives, or if you wish to impose, add or modify any reasonable restrictions to the management of your account. Our current disclosure statement is set forth on Part II of Form ADV and is available for your review upon request.*

American Values Investments, Inc.
1321 Sunset Drive, Suite 23
Johnson City, TN 37604
(423) 722-1776
www.americanvalues.com