

The American Hero Newsletter - July 2008

Our mission: Transform culture by inspiring values in the marketplace

Responsibility 911

Carter LeCraw, CEO

The Statue of Liberty stands in New York harbor as a constant reminder of the cherished ideal of Freedom. Almost all Americans would verbally defend this God-given right and many would be willing, as many already have, to give their lives to protect it. (I have a special affinity for those in the armed services since I served four years in the United States Navy.)

What's missing, though, is a corresponding fervor to promote a key principle which, when regularly exercised by individual Americans strengthens the concepts of Liberty and Freedom. It's probably not too hard to guess from the title that it is, yes, ... Responsibility.

Personally, I would rather go play a round of golf, or eat an ice cream cone (Vanilla Bean or Rocky Road, please) than contemplate this concept for any extended period of time. But, alas, exercising responsibility is vitally important to us as individuals, as a nation, ... and as investors. Furthermore, there is now, a "courageous" organization that has "taken on the responsibility for promoting Responsibility".

The Statue of Responsibility Foundation (SORF) is attempting to bring to reality the almost mind-boggling dream of Dr. Viktor Frankl, a famous holocaust survivor and author of Man's Search for Meaning who said, "Freedom is not the last word. Freedom is only part of the story and half of the truth. The positive aspect of freedom is responsibility. That is why I recommend that the Statue of Liberty on the East Coast of the United States be supplemented by a Statue of Responsibility on the West Coast."

What a wonderful project for Americans everywhere to encourage and support. It certainly challenges me to be more responsible with my time, my talents ... and my treasure. Many of our country's and the world's influential leaders have alluded

to the importance of applying responsibility to the privilege of freedom. Benjamin Franklin said, "Only a virtuous people are capable of freedom. As nations become corrupt and vicious, they have more need of masters." I believe Ronald Reagan knew how important Biblical principles, many of which involve personal responsibility, were to Freedom when he said, "Freedom prospers when religion is vibrant and the rule of law under God is acknowledged", and Winston Churchill said it pointedly, "The price of greatness is responsibility".

I admire and support the Statue of Responsibility Foundation and its ambitious goal to actually, can you believe it, BUILD a Statue of Responsibility on the West Coast. Responsibility is, indeed, an extremely important concept as it applies to how we use our freedoms. Furthermore, because investment capital is so powerful, responsibility is critical in how we deploy it. Interestingly, many years ago a term emerged that would describe the responsible use of investment capital. That term, "Socially Responsible Investing", often referred to as SRI, had many of its roots in the Christian faith. Some believe John Wesley's sermon in the 1700's entitled "The Use of Money" was one of the original "seeds" of the modern day Socially Responsible Investing industry. Our firm's investment strategy, we are now calling "Values-First Investing" is one of many forms of SRI.

A major fundraising project for the Statue of Responsibility has been the creation and recent release of a book entitled Responsibility 911. There are 56 chapters about various aspects of responsibility, many of which, have been contributed by well-know (except for at least one author of whom you will find out about later) people. Authors include, Desmond Tutu, Christopher Reeve, Pope John Paul II, Tom Peters, John McCain, Barack Obama, Norman Schwartzkopf, J.W. Marriott, and even our current President, George Bush.

Here's the exciting part, and how this project relates to our investment strategy at American Values. About two years ago I called to find out more about this inspiring "Statue building" project and was privileged to speak with the executive director, Daniel Bolz. He told me more and then, politely, asked about my work. I briefly told him about our form of socially responsible investing which we then called "Values-Driven Investing" (and are now calling "Values-First Investing") which targets stocks of companies that best reflect authentic American values. After hearing our story he asked me to write one of the chapters for the new book, Responsibility 911! Obviously, I was quite excited about the prospect and, in understandably quick fashion, sent two articles I had written. He liked them both and asked me to combine them into one piece which was eventually accepted as a chapter in the book. Later, they edited out some chapters, but, fortunately, ours remained.

It is truly an honor to be included in a book with such well-know authors, but what it really speaks to is the importance of our mission here at American Values. Our chapter is now there to encourage investors all across America to align their investments with their values as a way of positively affecting our culture.

It's hard to imagine us being invited to contribute to this inspiring book and project were it not for our clients. Your valued and important investment accounts, now totaling approximately 50 million, have given us a platform to speak out about the importance of "Values-First Investing". For this we offer our heartfelt, "Thank you!" Furthermore, be encouraged ... together we are making a difference.

Note: The book, Responsibility 911 can be ordered through the Statue of Responsibility's website, www.sorfoundation.org. Proceeds will go toward building the Statue of Responsibility. By the, way ours is the 46th chapter, entitled, "Values-Driven Investing".



Investment and Market Commentary

Russ Miller, CFA, Chief Investment Counsel
July 2008

Following is the performance of our American Hero models, less fees and expenses*. The S&P total return figures are figured for year-to-date and cumulative as of 6/30/08.

	Year to Date Jan - Jun 08	Inception to date	Inception date
Equity	-9.80%	+38.34%	4/30/04
Equity Plus	-8.43%	+42.66%	4/30/04
Balanced	-6.02%	+33.50%	4/30/04
Conservative	-3.44%	-3.44%	12/31/07
Defensive	-.84%	-.84%	12/31/07
S&P 500 TR	-12.83%	+23.86%	04/30/04

Investor concerns increased as the market weakness that began last year continued in the first half. In late June, the market tested the prior lows of late January and late March. This weakness was consistent with prior cycles and was somewhat anticipated, per our January Commentary statement that the first half was "likely to be rocky."

Investors are asking: Are stocks too risky now? Are CD's a good alternative? Are bonds better? What about the eroding impact of inflation on asset values? The sharp rise in oil prices to unimagined highs seemed to highlight concerns about a possible breakdown, such as of the financial system. The Federal Reserve rescue of Bear Stearns enhanced this concern.

Amid these market lows and questions from uneasy investors, we reaffirm our commitment to help our clients be good stewards of their assets. There are two key building blocks in our investment foundation – stocks and values.

Stocks are the best long-term investment. They are likely to grow faster than inflation over the long-term and they are liquid (readily sold for cash). Our portfolio has companies, whose **values** are consistent with those of America's founders. These positive values help clients avoid supporting or profiting from activities that are not consistent with their values.

Also, we avoid market timing. Based on many studies and our experience, it is unlikely that we will be among the very, very few who consistently buy low and sell high. Our investment **goal** is to beat

the return of our benchmark, preferably with less volatility, especially in weak markets. Our **method** includes: be fully invested, diversify to reduce volatility with holdings in the main S&P economic sectors and focus on American Hero companies that have good records and that are in the best sectors.

For example, we underweight the financial sector, where banks are hurt by deflating the twin bubbles – credit and housing. Our only bank holding is Synovus, a strong bank in a good region, the South, yet its recent performance has been weak. AFLAC helps us achieve our diversification goal of having the best holdings we can in this weak sector. AFLAC's well-run insurance business, especially in Japan, has enabled it to produce remarkably consistent long-term growth. Its recent performance has been good.

Overweighting and good stock selection in the energy and industrials sectors have helped offset weakness in other sectors such as consumer and financials. For example, the performance of Sonic, a fine company and prior good performer, was retarded by overall weakness in consumer spending. We continue to review laggards, such as Sonic, to seek improved long-term performance. Apache (energy) and Corn Products (food) have offset this weakness.

From the big picture perspective, we think sluggish growth / stagflation is most likely this year. There is good potential for a one or two quarterly declines in GNP. Better growth is expected next year and there is growing potential that inflation may be lower, since energy and food prices seem unlikely to surge further and may decline. Demand weakness in many consumer areas is also likely to retard price increases elsewhere.

Other big picture trends are expected to have a positive impact on certain investments. For example, China, India and the oil producing and exporting countries are likely to continue to grow. Also, despite possible weakness, oil and food prices are likely to remain relatively high. Thus, strength in these sectors could offset weakness in consumer and finance sectors, where balance sheets are being repaired and liquidity is improving after the weak-

ness in home prices.

A good risk-adjusted return is facilitated by portfolio management discipline. We monitor modern portfolio theory (MPT) data to track our discipline. Three key ratios are encouraging. High alphas (over 10) affirm good stock selection; low betas (below 1) affirm low volatility, and high Sharpe ratios (well above the benchmark) affirm a good risk-adjusted return. MPT data is based on past results, which does not, of course, guarantee future results. Yet this MPT data is helpful and encouraging.

Thus, concerning the questions noted earlier, we think our steady focus on diversified holdings of good, values-first companies without market timing is likely to produce ongoing good long term returns, while resisting market weakness. Also, it is appropriate to note that, for clients who are uneasy about volatility, American Values recently introduced two lower risk, less volatile portfolios that have better potential than bonds to outpace inflation. Questions, comments and suggestions are welcome.

* 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.

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