American Values INVESTMENTS

Supporting Life, Liberty and Happiness

The American Hero Newsletter - October 2009

We provide investment portfolios that encourage and support what is good in America's marketplace.

America's Success Secret, Spiritual Capital

Carter LeCraw, CEO

Much has been made of America's phenomenal economic growth over the last two centuries. Many observers focus on the more obvious reasons for this success like, free markets, capitalism, democracy, diversity, natural resources, and personal liberty. These are vitally important, but there is a source of power at the core of America which has and continues to provide the foundation for a prosperous nation. Indeed, America's Spiritual Capital has been critical to her growth and success.

In his recent book, Spiritual Enterprise, Theodore Roosevelt Malloch, defines Spiritual Capital as, "the fund of beliefs, examples and commitments that are transmitted from generation to generation through a religious tradition, and which attach people to the transcendental source of human happiness." Mr. Malloch gives numerous specific examples of how Spiritual Capital has been utilized to propel businesses and therefore the overall economy.

Spiritual Capital, as the term implies, emanates from religious convictions. It presupposes there is a God and that He has definite "guidelines" for personal behavior. With more professing Christians than any other religion, it is pretty obvious that the primary source of Spiritual Capital for American business is from the Christian religion. Values like honesty, kindness, loyalty, patience, self-control, gentleness, and perseverance are values which are encouraged by the Christian faith and their influence is apparent in all levels of the American marketplace. These values keep our free markets and personal liberty from degenerating into vehicles for greed and abuse.

But, America's Spiritual Capital does MUCH more than merely restrain evil. It goes above and beyond to create numerous products and services that ooze with concern for our fellow man. One of the greatest sources of America's Spiritual Capital comes from the second great commandment given to us by Jesus, "Do to others as you would have them do to you. (NIV)" Actually, there are many businesses in America that expressly use this commandment as a guide to company operations. This commandment, a bedrock concept for American Spiritual Capital, has given rise to everything from motorized wheelchairs to disposable diapers.

Capitalism and free markets have MANY critics. One of the most notable is Michael Moore whose recent movie, "Capitalism, A Love Story", severely criticizes America's obsession with free markets citing numerous abuses within the system. His assessment is the typical half-empty glass argument. Of course, you will find plenty of bad stuff in America's free markets. But, Mr. Moore, be on notice, the situation would be MUCH worse were it not for America's spiritual capital. A more inspirational movie could be made about all the good that IS alive and well within America's marketplace, as result of our Christian heritage. The primary reasons for American prosperity are NOT selfishness and greed, but the values that flow from America's deep well of Spiritual Capital.

Yes, financial capital, social capital, and human capital have played a role in America's 200+ years of economic growth. But, it is Spiritual Capital that has been the greater source of strength for American business. This is why, at American Values Investments; we look for companies that appear to have an abundance of Spiritual Capital. We are convinced stocks of these companies are better prospects as investments for our clients. More importantly, we feel these companies will do more to build the kind of America we want for our children.

To have a free, peaceful and prosperous world we must be ever stronger, particularly in the spiritual things … —Dwight Eisenhower

Investment Performance

Following is the performance of our American Values portfolio, before fees and expenses. The S&P (total return) figures are calculated for year-to-date and cumulative as of 4/29/09.

	Year to Date Jan - Sep 09	Inception to date	Inception date
Am Hero 100	+ 13.05%	+ 20.95%	4/30/04
S&P 500 TR	+ 19.26%	+6.04%	4/30/04

Investment and Market Commentary

Third Quarter 2009

George Parks, CFP
Investment Committee Chairman

The S & P 500 has increased nearly 60% from its March 2009 lows. It is up over 15% for the third quarter. It appears much of the increase has been driven by predictions that the recession is over and we are moving into a period of rapid growth. As companies begin to release earnings for the third quarter it will be interesting to see if there is fundamental support for the rise in stock prices. The wide spread cost cutting efforts, lower inventories, conservative expectations, and less than stellar performance last year could provide more indications of recovery. Fourth quarter earnings results could be even more favorable given the financial write offs and dismal retail sales from last year's fourth quarter. All support recent gains and point to future gains.

The conundrum is earnings have continued to fall since March and analyst consensus predicts further erosion in the third quarter. To support current market valuations earnings need to grow significantly. Cost cutting is a big step in the right direction; however revenue growth will be needed to boost earnings to match stock prices. If companies are forced to reduce prices to grow revenues earnings growth will be very difficult. Many retailers have reported better than expected September sales, some by a wide margin, a good sign for revenue growth in the fourth quarter.

History points to a rapid economic recovery. In the past deep recessions have usually been followed by strong economic growth with gross domestic product reaching pre-recession levels in less than a year.

History also indicates we may be in a range bound or flat market that usually last around 15 years. If we are in a range bound market, the next question is when did it begin? It could be argued that it began in 2000 with the popping of the tech bubble with around five years to grow from previous highs. It will take another 50% in growth to reach previous highs. 10% a year would not be too bad. It could also be argued that a range bound market began in 1997. The March 2009 lows were last seen in 1997. In that scenario we may have less than three years to make up the difference and start the next extended bull market which historically last around 15 years.

The extended bull markets have usually begun with S & P 500 price earnings ratios around 10 and ended with ratios in the mid to upper 20's. Currently the ratio is pushing 20, further indication we need significant earnings growth to support market price recovery and then move to the next era of stock price appreciation. If we do not see consistent earnings growth we could see some pretty volatile markets. The biggest risks are major geopolitical events and constraining public policy.

Investment merit is a key component of our investment strategy. As mentioned in the previous commentary, we consider only the stocks from our American Hero Universe for inclusion in the American Values Portfolios. Those stocks are separated by sector and then ranked within their respective sectors by investment merit. Fundamental analysis is used to determine individual rankings. Companies are evaluated based on their long term growth records, financial strength, earnings ability, and competitive advantage. Before a stock is added its valuation is considered.

Academic studies indicate adequate diversification can be achieved with 10-12 stocks. We currently hold 24 stocks in our portfolio, which are spread across 8 of the 10 sectors (technology, health care, and etcetera). Our strategy is to always represent at least 7 of the 10. The 3 smallest sectors represent about 3% each of the total market. Within these sectors we select from different industries, within health care we have home healthcare, medical equipment, and medical instruments. We evaluate economic trends and public policy for sector allocation opportunities. For example when it is determined the recovery is on firm footing we will favor the consumer discretionary, materials, and industrial areas. As the economy is trying to recover the technology area has good potential. In the future I will address concentration and stock weightings.

The American Values portfolio performed well during the second quarter with results similar to the markets. Our year to date performance still lags some, but our longer term performance is very competitive. The best performing stocks during the last quarter were Caterpillar, Anadarko Petroleum, Cognizant Technology, and Aflac. The disappointments for the quarter were Cass Information Services, Hormel, and McCormick.

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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