American Values INVESTMENTS

SERVING VALUES~DRIVEN INVESTORS

The American Hero Newsletter - January 2008 (version 2)

Helping investors build a better America by investing in companies that best reflect American values.

100 American Heroes

Carter LeCraw, CEO

The dream that is America has always needed heroes to lead the way. Thankfully, many have surfaced at just the right time to guide us and shape America's future. The 56 men who signed the Declaration of Independence were some of our first heroes and they served us well. Other American heroes came along, again at just the right time, and include names such as Douglas MacArthur, who lead us so bravely in World War II, Clara Barton who founded the Red Cross, Ronald Reagan who challenged Mikhial Gorbachev to tear down the Berlin wall, Harriet Tubman who lead many slaves to freedom during the Civil War, Franklin Roosevelt, who stared down the Great Depression, Martin Luther King, who challenged us to treat all men as equals and Billy Graham, who helped many find salvation in Christ.

But there is another very important group of past American heroes who don't get near the recognition they deserve. They are the principled, values-driven business leaders who have demonstrated innovation, faith, hard work, and concern for their fellow man in order to develop products and services which have made America a better place for us to live. Just like political and military leaders there have been good and "not so good" business leaders, but some stand out as a breath of fresh air in the challenging arena of business. Here are a few:

Henry Cromwell pledged that if the Lord would allow him to own a profitable business he would keep his name off the business and allow God to have the glory. After spending seven tough years out west he returned home and felt God's leading to buy a small run-down mill near Akron, Ohio. We all know it today as the **Quaker Oats Company**.

J.C. Penny drew on his parents' Christian teachings and opened his first store which he named The Golden Rule. He believed that making money must always be a by-product of building the character for men and women and the rendering of essential service to mankind. Interestingly, a young JC Penny employee, Sam Walton, was impressed with the Penny principles and later began his own store, Wal-Mart.

Jessie Shwayder combined his life savings of $3,500, a firm conviction of building a company on the Golden rule, and an idea of making a suitcase as strong as Samson to build a company we know today as Samsonite. He gave each new employee a marble plaque with a reminder of the Golden Rule.

Richard Kughn felt led by God to purchase a toy train company, Lionel, as a way to further the idea of helping Dads connect with their sons.

Dave Schwartz established a successful rental car business called "Rent-a-Wreck". His quote was not only a good one for today's business owners, but could also serve as guiding principle for today's investor … "If money is your only goal, then forget it. I believe that in any enterprise, if you make money your god, then the business will never be really successful. For then you are never satisfied; you've put the cart before the horse."

Robert Townsend, former President of Avis Rent-a-Car, said that if you had to have a company policy manual the best thing to do was to use the Ten Commandments.

Conrad Hilton, founder of the Hilton Hotel chain, refused to file for bankruptcy during the Great Depression in order to preserve his good name and credit. He was probably following the advice of his mother who told him to go to church, pray, and not give up. He was known to often go to church to pray before coming to work.

We can be truly thankful for these and other heroic business leaders of America's past, but who are their counterparts today? What companies currently reflect solid values that can responsibly give our economy hope for the future and, therefore, merit our support by allowing our valued clients to become their shareholders?

Over the last year we, as an investment firm, instituted a significant research initiative to discover more American Hero Companies; companies that reflect values like integrity, humility, diligence, caring and courage.

We dedicated financial as well as human resources to this important endeavor and set an ambitious goal of reaching 100 Hero companies by the end of 2007. This was important because having more companies in our American Hero Universe would give our investment committee more choices for client portfolios.

Russ Miller, our chief investment counsel, was commissioned to head the project and was joined by Benny Van Huss who was eager to tackle the required rigorous analysis work. Without going into a long discussion of all the details surrounding this important project, suffice it to say it would be a monumental task and an enormous effort would be required to reach the goal of 100 American Hero Companies by year's end.

Nevertheless, after a valiant effort, on December 28, 2007 the 100th American Hero Company was confirmed by our dedicated company analyst, Benny Van Huss. This not only gives us more choices for client portfolios but also affords the opportunity to eventually develop an index mutual fund or ETF (exchange traded fund) that might be used to serve smaller accounts.

America still needs heroes. It is heartening to know they still exist.

If money is your only goal, then forget it. I believe that in any enterprise, if you make money your god, then the business will never be really successful. For then you are never satisfied; you've put the cart before the horse.

—Dave Schwartz, Founder of "Rent a Wreck"

Investment Commentary

Russ Miller, CFA, Chief Investment Counsel
January 2008

Performance in 2007 has been most encouraging. Following is the performance of our models, less fees and expenses*. Two new models (Conservative and Defensive) were added recently; their performance data will be shown in the future.

	Year to Date Jan - Dec 07	Inception to date	Inception date
Equity	+12.04%	+53.49%	4/30/04
Equity Plus	+5.32%	+55.77%	4/30/04
Balanced	+3.98%	+41.99%	4/30/04
James	+1.73%	+6.84%	5/31/06
Peter	+.02%	+34.23%	5/31/04
AVI Accum	-5.04%	-4.27%	7/31/07
DR Equity	+6.73%	+44.65%	4/30/04
DR Accum	+3.97%	+19.71%	12/31/04
DR Timothy	+15.35%	+49.59%	10/31/04

We also track our stock performance in comparison to market cap weighted benchmarks.

Change & Uncertainty. After several years of good performance, the markets and the economic factors behind the markets have become much more uncertain. Many are uneasy about a possibly significant decline.

Concerns are numerous. The sub prime mortgage and securitized mortgage loan markets seem to be imploding, which is hurting real estate values. Declining property values is eliminating debt-financed consumer spending. Increased unemployment adds uncertainty. The derivatives market is also under pressure as confidence in rating agencies erodes.

Abroad, the US dollar continues to weaken from balance of trade and balance of payments deficits. Large US debt held abroad, especially by China, increases uncertainty. $100 pr barrel oil imposes an added economic burden while providing nations that are unfriendly to America with increased financial resources. Furthermore, increased production of energy from biofuels (such as corn) is helping push food prices up.

Several perceptive gurus believe that government statisticians will agree in several months that a recession in the US has begun. We agree. The recent upturn in unemployment looks remarkably like upturns prior to nearly all prior recessions. The historically high profit margins in corporate America seem likely to erode. Increased stock market volatility reflects these increased uncertainties.

Yet America remains the most dynamic economy with the most resilient people in the world.

How do a recession and this litany of unsolvable problems, but good long-term investment opportunity affect investing through American Values? Our investment strategy is unchanged and our tactics our being tuned, as follows.

Investment Strategy. Disciplined diversification and good stock selection underlie our investment strategy. Our goal is above market performance over the long term with somewhat less downside volatility in declining markets and equal to greater performance in rising markets.

While we join the many who are concerned (the market seems quite oversold as I write), we also are committed to the theme – "time in the market is more important than [the often futile] timing of the market." While a "bullish scenario" seems quite unlikely now, it is surprising how quickly things can change in unpredictable ways. Accordingly, we are committed to a fully invested investment strategy, which we think will continue to produce good long-term returns.

The core of this strategy is good stock selection. Our stocks are entirely chosen from American Hero companies, whose American values contribute, we believe, to good long-term operating and stock performance. These companies generally provide essential services that are needed even if the expected recession develops. Our diversification guidelines are unchanged – 50-200% in at least the seven largest S&P sectors that account for over 90% of the market.

Our main asset allocation guidelines are unchanged. However, being sensitive to investor concerns, we have added two new lower risk portfolios (Conservative and Defensive). They have lower stock allocations and higher short-term government bonds and Treasury bills allocations.

The Modern Portfolio Theory (MPT) statistics imply that our long-term investment performance objectives are reflected in the portfolio. High **alphas** (generally over 10) imply good stock selection. The Low **betas** (generally 0.9 or less) imply less volatility. High Sharpe ratios (well above the market cap weighted benchmarks) imply good risk-adjusted return.

Performance attribution analysis affirms good stock selection in all industries except technology, where we continue to seek good values-driven companies. The potential for continued good relative performance seems favorable.

Thus, our investment strategy anticipates uncertainties and is largely unchanged.

Investment Tactics. Our investment tactics are being fine-tuned to reflect these short-term uncertainties. In our upcoming in-depth annual review, we will carefully evaluate all aspects of our investments. Despite the good recent performance, we will seek answers to key questions, such as:

Stock Selection - Can our stock selection be improved? Our resourceful research guru has sharply expanded the list of American Heroes to 100 by finding about 40 more values-driven companies, as noted by our CEO.

Sector Allocation – Should some MLPs (Master Limited Partnerships, such as oil and gas) be substituted for REITs (Real Estate Investment Trusts)? When should the recently good under-weighting of financials be raised? Should the weighting of consumer stocks be cut?

We believe the discipline injected by the possible upcoming economic difficulties will set the stage for an improved market, possibly beginning in the second half of 2008

Teamwork. An important strength of American Values is its Investment Committee. For example, Committee Chairman, George Parks, often says, "If there is no clear benefit to the proposed change, it should not be made." Stability and continuity are important.

Three Committee members (Parks, plus CEO Carter LeCraw and the writer) make investment decisions. However, investment advisor representatives (Jim Miller, Roy Nunn and Alex Ellis), researcher (Benny Van Huss) and strategic planner (Estal Fain) attend the meetings and have much input in our spirited discussions.

While we will not always be right, we seek to be accountable to each other and our Lord to make sound, values-driven investment decisions that fulfill our fiduciary responsibility to you, our clients. We welcome feedback, questions and suggestions. We hope your 2008 is good, despite what seems likely to be a rocky first half from the investment perspective.

* For estimated fees and expenses we deduct .525% quarterly for stock portfolios and .33% 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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