

## The American Hero Newsletter - July 2009

**We help concerned investors encourage and support what is good in America's marketplace.**

### Patriotic Investing

Carter LeCraw, CEO  
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Having just experienced the annual inspiring dose of "freedom and fireworks", it seems appropriate to think about ways we, as average citizens, can help the country we love. Buying American products, voting in local and national elections, paying our fair share of taxes, contributing to local charities, serving in the military or maybe just flying Old Glory in the front yard are just a few of the many ways we can support America.

What about personal investing? Is it practical or even possible to use investments to support America? Would it be possible, for example, to apply John F. Kennedy's famous line to investing decisions and therefore "ask what our investments can do for our country"?

If the Founding Fathers are any kind of example (more on that later), there are ways for the average investor to contribute to a stronger America. This article will focus on why Patriotic Investing is important, how it can be implemented and what level of financial returns can be expected.

The "why" of Patriotic Investing is pretty simple – investment capital is incredibly powerful. It can be used for good, or bad. It has been used to create some of the best companies, organizations and even whole industries in the world today. In turn, these groups have developed numerous products and services beneficial to mankind. On the flip side, most of us see companies, organizations or industries that are not good contributors to society.

In addition to creating entities, capital also can be used to support existing entities. For example, whenever someone buys even a few shares of an existing stock they "support" the stock price of that company and give it more strength to advance its mission. This is why companies care a lot about keeping their shareholders happy. They know if enough investors sell their shares the price of their stock will go down, sometimes very quickly, as we have seen with a few high profile companies like GM and Citibank. These companies also know that a large contingent of "long-term holders" of

their stock helps facilitate numerous benefits including lower interest rates on loans and cheaper access to capital for expansion.

Providing reasonably priced debt financing is also a key ingredient to organizations. Debt can be used to finance all sorts of worthwhile projects including the building of water systems, schools, or even churches. When we "lend" our investment capital by purchasing CDs, bonds or money market funds the assets are used to finance an almost endless variety of endeavors. Some people may prefer using investment funds to finance schools and churches rather than new cars or casinos. But, of course that is up to the individual investor. The evidence, though, is clear -- where capital is deployed matters.

The "how to" of Patriotic Investing may take a little time and research, but, if you love America, it's worth it. First, and one of the easiest ways for a small investor, is through "socially responsible" domestic mutual funds. (A key word here is "domestic" which indicates the fund will focus primarily on investments in the United States.) These funds are "constructed" to address certain cultural concerns. They cater to a vast variety of investor concerns including, but not limited to, religious, political, and environmental issues. Normally, these "ethically-minded" mutual funds are designed to avoid companies or entire industries that hamper their particular ideology whether it involves abortion, tobacco, women's rights, global warming, gambling, minority rights, etc. One limitation with this approach is that most of these funds use only an "avoidance" strategy i.e., they "avoid" what they consider bad. Most investors should be able to find a fund that addresses their particular viewpoint. Using certain key phrases in Google like "Socially responsible mutual fund", "Faith based mutual fund" or "Values based mutual fund" should help the potential Patriotic Investor find a suitable mutual fund. Most of these funds have low minimum investments with many only requiring \$1,000 or less for initial investment. Past investment performance is also available from most mutual fund management companies.

A more intentional and, potentially

more effective, form of Patriotic Investing is to use a "targeting" strategy. This involves selecting specific public companies (again, based in America), that best reflect our country's values (honesty, service, courage, etc.), and becoming a direct owner by purchasing shares of their common stock. Targeting good, solid values-driven companies also helps to avoid the bad ones. Because this involves purchasing individual stocks this strategy carries considerably more risk and requires more research. Consequently, it is advisable to implement this strategy with a limited amount of money and/or hire an investment professional to, hopefully, avoid big blunders. The advantage of this approach is that, instead of voting against what is harmful, you are voting for what you feel is helpful. In a society so bent on criticizing what is wrong, seeking to find what is good, in the form of a public company, and support it with personal investment dollars is refreshing. Even if targeting is used for a small part of your portfolio, it may yield the best overall results in those critical categories of "satisfaction" and "peace of mind".

It would be a mistake not to mention U.S. government securities which come in many different forms including short-, medium- and long-term maturities. A more recent form of Government securities are the Treasury Inflation-Protected Securities (TIPS) which have interest rates that adjust with inflation. Any of these patriotic "debt instruments" can be purchased either collectively through a mutual fund, individually through your broker, or directly from the U.S. government. Other creative patriotic investments might come in the form of private equity funds (usually reserved for more experienced investors) or "community investing", a fairly new concept which incorporates some elements of charitable giving.

Any discussion involving investments usually gets around to the issue of performance. Investors want to know they have a reasonable opportunity for competitive returns before committing hard-earned funds to an investment strategy, even if it is patriotic.

(continued on reverse)

## Patriotic Investing (continued)

Overall, historical performance figures reveal little difference between “socially responsible” mutual funds and their peers, but that varies widely with each particular fund. Therefore, investors should be careful to review past performance figures of funds in which they invest remembering that past performance is no guarantee of future results. Concerning investments in specific companies (targeting strategy), there is some evidence that good values often, but not always, lead to better long-term financial results.

Jerry Fleming, in his book, [Profit at any Cost? Why Business Ethics Makes Sense](#), offers a convincing case for why “values-driven” companies often outperform their peers.

There must, though, be a greater cause or purpose than financial rewards if one is going to truly incorporate Patriotic Investing. Maybe the highest form of Patriotic Investing was the selfless example set by our Founding Fathers who had a dream called “America”. Dreams, though, rarely become reality without blood, sweat, tears, and ... money. Maybe that’s why, the fifty-six signers, with the last sentence of the Declaration, made the ultimate financial commitment. It reads, “And for the support of this Declaration, with a firm reliance on the protection of Divine Providence, we mutually pledge to each other our lives, our Fortunes, and our Sacred Honor.”

The reality that America faces enormous challenges is only par for the course. The American dream will always “live on the edge”. The question becomes, “What will each new generation do to keep the dream that is America, alive?” Our Founders used Patriotic Investing (by pledging their entire Fortunes), to build America. Maybe today’s Americans can use Patriotic Investing to build a *better* America.

## Investment Performance

Following is the performance of our American Hero models, 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 - Jun 09	Inception to date	Inception date
Am Hero 100	-2.46%	+4.35%	4/30/04
Am Hero 75	-1.87%	+7.23%	4/30/04
Am Hero 50	NA	+5.10%	1/31/09
Am Hero 25	NA	+2.99%	1/31/09
Bond 100	NA	+ .85%	1/31/09
S&P 500 TR	+3.16%	-8.27%	04/29/04

## Investment and Market Commentary

George Parks, CFP  
Investment Committee Chairman

Russ Miller previously wrote this portion of our quarterly newsletter. That responsibility has fallen to me for the time being. Thanks to his desire to share his wisdom and his patience in doing so, I am better prepared and willing to ‘press on’. The writing style will be different, but the objective to offer some insight into our investment management will be the same.

For the last six years Carter and I worked closely with Russ to build the model portfolios. As a matter of fact, the last project we worked on was formalizing our **Hero First Investment Strategy**. As a part of the quarterly report, I will offer my perspective on this strategy and how we are implementing it. In addition I will give an update on our view of the overall market and what effects that has had and may have on our attempts to improve the models.

The paramount principle in Hero First Investment Strategy is that we will invest **only** in American Hero Companies. These companies are the best at demonstrating high levels of integrity, humility, diligence and caring as determined by our in-depth 500 point proprietary research process. Currently we have over 100 companies that meet these criteria.

The next defining characteristic of the Hero First Investment Strategy is to build concentrated yet diversified portfolios. We will use 20-30 individual stocks that represent a majority of the S&P sectors. We will identify and maintain core holdings with good long term performance. By concentrating on 20-30 stocks we are better able to understand each and monitor their activities. Furthermore, modern portfolio theory indicates adequate diversification can be achieved with as few as 10-12 stocks. There are other studies that indicate performance can be enhanced through concentration. Warren Buffet typically concentrates on 10-12 stocks. Next time I will address investment merit and diversification.

The S&P 500 has increased over 15% during the second quarter. Given the premise that the market is a leading indicator by around six months, the market must be expecting earnings growth later this year. Our analysis of the stocks we follow, and the market in general, would concur with that expectation. Those earnings increases will be driven by improved efficiencies, or cost cutting.

An improvement by a third is great; however it will take several quarters of such

gains to get back to where the markets were at their peak in October of 2007. In order to have earnings growth to sustain that type of performance there will need to be some good revenue growth to compliment the improved efficiencies. Therefore, when there are solid indications the economy as a whole is getting back on track we can look for a sustainable growth pattern.

In the meantime, we will be looking at what parts of the economy may provide some opportunities to improve our portfolio. Many of the efficiency gains are driven by technology. We have added Microchip Technology to the models which will give us an over weight position in this sector. Health care seems to be an area that could benefit from improved efficiencies. A rebounding economy can create an environment for increased revenues in the energy, industrial and consumer discretionary areas. Likewise, consumer staples would likely see less relative growth. We have already made a move in the energy, industrial and materials areas due to the government policy of stimulating the economy and a good pool of stocks. That stimulus’ impact has been slow to materialize. The stimulus has also been offset by reduced state and local government budgets. Foreign government stimulus particularly in China seems to be having more impact. We have removed Grainger from the models to reduce the concentration closer to market weight. We have also reduced our exposure to the financial sector (done in first quarter). There are still many unknowns, such as what role will government policy play, credit availability, and if there is a fundamental shift in consumer savings and spending.

Second quarter earnings reports will be coming out from mid July through early August. Those reports should shed some light on the current state of the economy and provide some insight on expectations for the rest of the year. Recently, both Smucker’s and Hormel have announced impressive revenue and earnings increases.

*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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