

The American Hero Newsletter - October 2008

We help investors strengthen America and their portfolios by investing in companies that best reflect the values upon which America was founded

In ? We Trust

Carter LeCraw, CEO

The current economic situation has revealed something disturbing about me. Instead of relying on the words OF our national motto, I have put way too much trust in what the motto is printed ON. I keep reminding myself that “In God We Trust” is written on our money for an important reason; to remind us that it’s all too easy to shift our trust from God to our bank account.

It’s not like I intended to trust too much in money, it just kind of happened. You may not be the same, but way too often, I look to my bank account FIRST to solve daily problems instead of looking up. Even though my “kind” and persistent mother continues to remind me, (OK, Mom, that’s enough!) about reading my Bible, and has even given me a Daily Bible to help, I often skip my daily time of devotion. Why? Maybe, it’s because I don’t feel a need for it. I’ve got money in the bank, so why do I need to pray? I don’t need to pray for my daily bread, I just use my bank card.

Now, I’m not saying we all need to give all our money away so we can trust God better, although, sometimes I wonder if that might do me some good. What I am saying is that I need to figure out a better way of realizing that my money is not and should not be relied upon too heavily.

It seems, though, the recent financial crisis has helped me get back on the right track. Not totally, of course, but it HAS gotten my attention, hopefully for

more than just a few days; at least long enough to write this newsletter article which could be used against me by those who know me best.

Money is a wonderful tool, but it makes a terrible master. If it becomes the main goal for our lives, our businesses, or even our investments it can become a millstone around our necks and something that gives us tremendous grief. Way too often, I have allowed it to become too central in my life and thinking.

I recently spoke to a gentleman who gave me a stark example of how leaning too much on money can be devastating. His family was handed literally millions of dollars as the result of the sale of a family business. Two divorces resulted. I would venture to guess that money, to some degree, had replaced the need for God and family in the lives of these people, ... and we all know BOTH are more important than money.

Thank goodness there are some who are better able than most to maintain the right priority of trust in their lives. Most of these, either wealthy or not, are extremely generous and see themselves as only stewards and not owners. Somehow, they seem to inherently keep the right perspective; something that I struggle to maintain for any significant period of time.

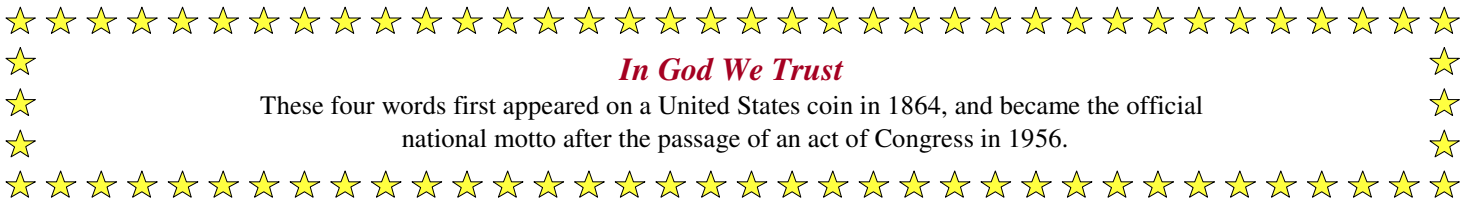
My father, at least at times, was one of those rare individuals. He was truly one of the most generous men I ever knew. He was probably guided by a quote on his office wall by our long-time and beloved Presbyterian pastor, Vernon Broyles which read, “The only

escape from the tyranny of money is to ruthlessly give it away.” My Dad had an incredibly tender heart and would often help those in need in addition to being a bountiful financial supporter of his home church in Atlanta.

I’ll never forget my grandfather’s story about how he, Roy, and my grandmother, Julia, stepped away from money and put their trust in God at a very difficult time in their life. Roy had come back from World War II and been offered, what at that time, was a nice salary, \$10,000 per year, with the Presbyterian Church. He was asked to travel throughout the south encouraging churches that had become downtrodden after the war. When he told my grandmother about the generous job offer she presented him an extraordinary idea ... “take the job ... but NOT the salary.”

Although he had five sons to feed and many financial obligations, he, somewhat reluctantly, decided to take her advice. In his own words here’s what happened: “In those four years when I was traveling and working for the church ... I made more money (in Atlanta real estate) than I’d made in my entire life ...”. There is, of course, no assurance that God will bless us with an abundance of money if we trust Him as my grandfather did, but I do believe He will take care of us in unique and exciting ways.

So, with these inspiring examples in my past and some “nudging” by the current economic crisis I hope to make some strides in my willingness to trust the words OF America’s motto rather than what the motto is printed ON.



Investment & Market Commentary

Russ Miller, CFA, Chief Investment Counsel
October 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 9/30/08.

	Year to Date Jan - Sep 08	Inception to date	Inception date
Equity	-14.60%	+30.93%	4/30/04
Equity Plus	-10.84%	+39.06%	4/30/04
Balanced	-7.67%	+31.28%	4/30/04
Conservative	-4.26%	-4.26%	12/31/07
Defensive	-1.14%	-1.14%	12/31/07
S&P 500	-19.29%	+13.91%	04/30/04

Current Investment Environment

Events generate emotions and emotions affect markets. Recent **EVENTS** included the credit crunch, the bailout bill and the Russian invasion of Georgia. **EMOTIONS** are intense. **Credit MARKETS** are nearly frozen. **Stock markets** are declining. Housing, auto and other markets are deteriorating.

Trust is the bedrock of a free enterprise economy. It will take time and consistent actions to rebuild the trust needed for efficient markets. Greed and lack of integrity that lead to fear need to be replaced by common sense, fairness and diligence that lead to trust.

The declining stock market records growing concern about the future. Excessive debt and the credit default swaps (CDS) are at the core of these concerns. Both grew sharply in recent years. The CDS market is estimated to exceed \$40 trillion (twice the US GNP).

Fractured trust and declining land, stock and other asset values (that secure debt) make the unwinding of the CDS market of intense concern. Major changes have occurred in the financial landscape. The five largest investment banks are now part of or under commercial banks and supported by the Federal Reserve Bank. A major insurance company, AIG, is surviving mainly because of financing from the Fed.

Previously, the American taxpayer was an always-sufficient source of financing. The \$700 billion bailout bill illustrates the belief or hope in this "business as usual solution." The subsequent stock market turmoil and taxpayer / voter dislike of the bailout affirm a deep-seated concern that this solution is not sufficient. Indeed \$700 billion is small relative to the \$40 trillion CDS total.

Sharp stock price declines imply growing concern about the viability of the current economic system. It forces people / investors to examine the fundamentals of our economic system and investing.

Several core beliefs underlie our view of the economy and investing:

Provision – individuals will take sensible actions to provide for themselves and their families,

Resourcefulness – freedom makes America the likely source of the solution to the seemingly unsolvable CDS / securitized debt disaster (witness the stronger US dollar), and

Stock Market – entrepreneurs in public companies will be an important factor in solving the CDS (and related debt problems) and providing the goods and services needed by people.

In the interim while people seek solutions, clients are concerned both about increased losses and the potential increase in inflation. The Federal Reserve (and other central banks) are cutting interest rates and sharply increasing the supply of money to liquefy the economy. Also, cash on the sideline is 30-40% of the stock market value. A spark could ignite a surge in the market.

Investment Strategy

Central to our investment strategy is concern for our clients. Ron Blue's practical, basic advice is important: spend less than you earn, avoid debt, have financial flexibility through savings and focus on long-term goals. This pre-investment advice is sound, since it reduces the likelihood that urgent, short-term panic selling will undermine a sound long-term investment strategy.

With a long-term investment focus, our Investment Process is unchanged. It is important to highlight four key steps:

Values – own only companies with the positive values of America's founders,

Growth – select growing companies with good long-term investment merit,

Concentration – own 28-34 stocks, which focuses research and increases investment discipline, and

Diversification – choose companies from all major S&P sectors and from different industries within those sectors

In addition, we use Modern Portfolio Theory (MPT) data to check and monitor our portfolios. We want to discern interim trends. They may prompt a few key actions that would improve performance within our low turnover approach.

Equity, our multi-cap blend portfolio, is diversified by style. It has one or more stocks in each of Morningstar's nine market cap and growth/value style boxes. Its performance has generally been somewhat better than the market, declining a bit less and rising somewhat more.

Equity Plus has the same 28 stocks as **Equity** plus 6 REITs (real estate investment trusts). REITs are expected to produce a long-term return that is superior to fixed principal and fixed interest bonds. REIT performance has been generally good, but performance began to lag about 12 months ago.

Balanced, Conservative and Defensive portfolios have increased allocations to low volatile government bonds and church bonds. Their reduced downside volatility has helped investors reduce the impact of the overall market decline from last October's peak.

Changes in values and investment merit have resulted in a few stock changes. Several more are possible. Nevertheless, we are encouraged that the fine American Hero companies in our portfolios represent good long-term value and are likely, when the CDS turmoil is overcome and the economic outlook improves, to produce good long-term returns.

Thank you for the opportunity to serve you in these challenging times. Your questions and comments are welcome by your advisor or the Investment Committee - George Parks, Chairman, Carter LeCraw, President of the firm, and Russ Miller, Chief Investment Counsel.

* For estimated fees and expenses we deduct .525% quarterly for our Hero 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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