



Global Market Overview

Since we implemented very few portfolio changes during the second quarter - and since the stock market's recent strength contrasts so strikingly with the economy's weakness - we devote a large proportion of this quarterly report to examining global market influences. The context of this report is the stock market's recent outstanding performance. As measured by the Standard & Poor's 500 Index, the stock market delivered its biggest quarterly gain in ten years, soaring 15.9% during the second quarter and nudging its year-to-date performance into the black. Through the end of June, the S&P 500 was up 3.2% for the year. At the same time, all three of the NCF Equity Pools - Growth, Balanced and Conservative - topped the year-to-date results of the S&P 500, despite the fact that all three pools hold substantial allocations in cash and fixed income.

What about the economy?

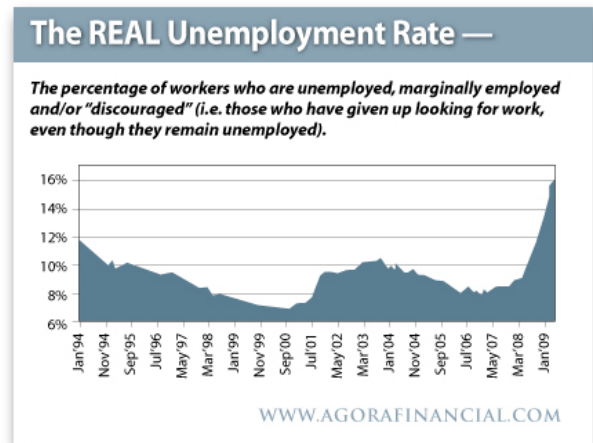
But even though the stock market staged a delightful rally, the economy so far has not. Rather, most essential measures of economic vitality are continuing to degrade. Industrial production, capacity utilization and unemployment - to cite three very visible indicators of economic health - are all continuing to worsen. Industrial production has slumped for seven straight months, while capacity utilization at the nation's mines and factories has tumbled to its lowest level in more than 40 years.

Nevertheless, as share prices have gained momentum, so has the perception that the worst of the financial crisis has passed. Increasingly, the investing public appears to believe that the "green shoots of recovery" are taking root, and that these shoots will blossom into bona fide economic growth. This optimistic outlook is dictating price trends in every major financial market. Commodities are rallying, emerging markets are soaring, and long-dated Treasury bonds are tumbling. All of these financial market trends reflect the belief that economic activity is reviving and that deflationary risks are abating.

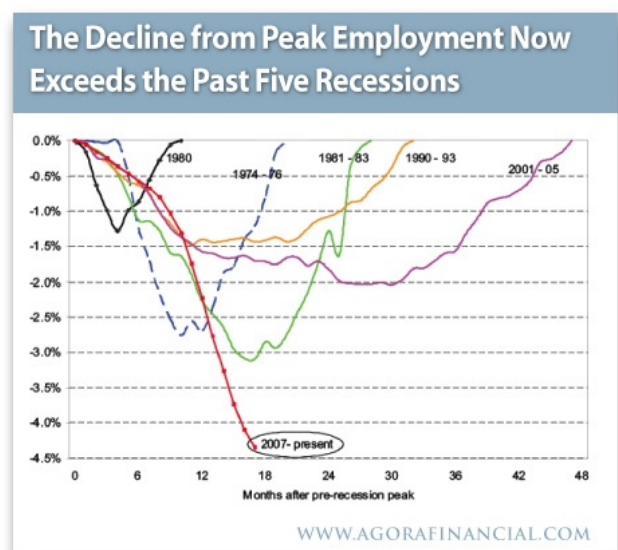
But the signs of economic recovery are far from unambiguous. It is true that much of the economic data flying across the newswires is "less bad" than before. But the data is not "good" in any absolute sense of the word. Economic distress is still ascendant from coast to coast, with very few exceptions. And perhaps most disturbing of all, unemployment is still climbing.

Based on the very latest government data for July, America's official unemployment rate is 9.4%. But as displayed in the chart below, the long-term "under

employment rate" is 16.3%. The chart tracks the combined percentages of American workers who are unemployed, partially employed, but seeking full-time employment or, so discouraged that they have stopped looking for work. For purposes of official unemployment, people who have stopped looking for work are no longer unemployed. The sheer magnitude of these numbers concerns us.



We are also concerned that the rate of decline in employment, as illustrated on the following chart, is far worse than anything we have endured during the last five recessions.





In short, the U.S. economy is still struggling. Unless and until legitimate economic growth resumes, we will remain concerned that the stock market's recent, outstanding gains may yet prove to be a so-called "bear market rally," as opposed to the beginnings of a new long-term, bull market.

For additional perspective, Japan's Nikkei 225 Index has rallied more than 40% on ten different occasions during the last two decades, as shown on the following chart. And yet, the Nikkei remains more than 50% below the all-time high it established in December of 1989. If the American stock market were to have the misfortune of mimicking the Nikkei, the road ahead would be long and painful. We are not predicting such a scenario but neither can we rule it out. So long as the "real economy" continues to struggle and threaten the viability of a stock market rally, capital preservation will remain our top priority.

20 Years of False Hopes				
<i>The ten instances during the last two decades when Japan's Nikkei 225 Index advanced more than 30%.</i>				
Start Date	End Date	Index Starting Level	Percent Gain	Duration in Days
1-Oct-90	18-Mar-91	18,781	37.9%	168
19-Aug-92	10-Sep-92	14,194	35.9%	22
17-Nov-92	11-May-93	15,941	33.1%	175
29-Nov-93	17-Jun-94	15,671	37.7%	201
3-Jul-95	26-Jun-96	14,296	59.1%	358
9-Oct-98	12-Apr-00	12,787	62.9%	550
28-Apr-03	26-Apr-04	7,804	60.4%	363
17-May-04	7-Apr-06	10,788	62.8%	709
14-Jun-06	26-Feb-07	14,045	30.3%	257
9-Mar-09	8-Jun-09	7,028	41.1%	91

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NCF Portfolio Modifications

With capital preservation in mind, we are continually monitoring our allocations, watching for opportunities to improve the pools by reducing risk or by increasing anticipated risk-adjusted returns. Because of our skepticism that the US economy has reached its low for this recessionary cycle, we are hesitant to maintain large, long-only allocations to US equities. Instead, we are maintaining the selected, tactical allocations to domestic and foreign equities that we established several months ago. These allocations anticipate continuing volatility in world markets and also anticipate the possibility of significant market declines.

This tactical imperative underlies our allocations to emerging markets and natural resource equities. Thus far,

these allocations are performing as expected by delivering high-beta returns. During the second quarter, our allocations to emerging markets and to natural resource stocks outperformed the S&P 500 by appreciating 30.9% and 18.0%, respectively.

All other portfolio allocations are performing as designed, both with respect to volatility tolerances, intra-portfolio correlations and risk management. We noted, for example, in our last report that we had added allocations to commodities as a hedge against future inflation. The prospect of such inflation continues, despite the weak economy, as a result of the unprecedented levels of debt-financed, government spending. Indeed, oil, gold and other commodities, have increased in price in recent months at a time when the weak economy would normally cause such asset prices to fall. Our commodity allocations have tracked those price movements and have not lagged the stock markets significantly. Overall, therefore, the pools are producing the investment results we seek, but with much lower volatility than that of the overall stock market.

Please be sure to review NCF's Second Quarter 2009 Performance Report, also posted on the NCF website. The Performance Report contains a page for each pool with details on that pool's performance and current asset allocation.

Conclusion

We are committed to creating an investment environment with choices for NCF donors that focus primarily on capital preservation. Losing hard-earned charitable funds to stock market declines benefits no one. Therefore, we seek to generate investment returns in ways that reflect our very low tolerance for capital losses. This guiding philosophy does not prohibit risk-taking, it merely demands that we take risks in measured ways that offer acceptable potential rewards.

We are delighted that the NCF pools have delivered superior investment results over 1-, 3- and 5-year timeframes. We are also pleased that the pools have achieved these results with very low volatility. In other words, we did not subject your charitable gifts to extreme risk in the pursuit of investment returns.

We will undoubtedly be making additional portfolio changes periodically and we will describe all such changes in future editions of this Global Investment Strategy Report. Therefore, please check our website from time to time to watch for additional information. Thank you, as always, for allowing the National Christian Foundation to help support you in your charitable giving.