STEWARDSHIP PARTNERS MARKET COMMENTARY

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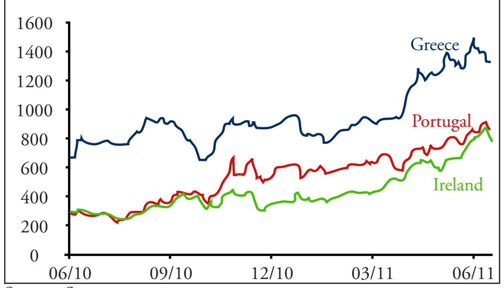
# Where Exactly Does that Road End?

***"…he will stir up everyone against the Kingdom of Greece" Daniel 11:2b (NIV)***

With a nearly 5% surge in just the last four days of the quarter, the S&P 500 snatched a tiny victory out of the jaws of defeat by climbing out of a significant performance hole and eking out the slightest of gains for the second quarter. Greece's approval of a harsh austerity plan was the principal reason for the last minute jump in share prices. The plan's approval by the Greek Parliament was required for the country to have a chance of receiving the bailout funds it desperately needs to avoid default, at least for the time being. Many believe a Greek default could lead the world into another financial crisis. Liquidity-threatening weaknesses in the European banking system would be exposed by losses incurred on defaulted Greek loans. We have previously highlighted the risk posed by such European sovereign debt problems, including those in Portugal, Ireland and Spain, as the most likely of the various "landmines" we see on the investment landscape to explode soon. As portrayed in Chart 1, the markets have also been concerned as measures of this risk have been increasing to alarming levels over the last year. Even after improvement on these measures following the favorable Greek vote, the markets are still assuming a very high level of risk of default on Greek, Irish and Portuguese bonds. Indeed, Portugal's bond ratings were recently lowered to junk status and even Italy's debt and banks have now come to be questioned by the market.

**Chart 1**

Credit Markets Reflect Rising Default Risk
Credit Default Spread vs. German 10 Year (bps)




Source: Strategas

**Table 1**

**2Q11 Total Returns**

| US Indices | 2Q11 | YTD |
|---|---|---|
| S&P 500 | 0.09% | 6.02% |
| S&P 500 Value | -1.47% | 5.23% |
| S&P 500 Growth | 1.63% | 6.79% |
| NASDAQ* (price only) | -0.27% | 4.55% |
| S&P 400 (Mid Cap) | 0.77% | 10.68% |
| S&P 600 (Small Cap) | 1.39% | 12.83% |
| Treasury Bonds | 3.45% | 2.14% |
| High Grade Corp. Bonds | 2.61% | 1.32% |
| Gold | 4.62% | 7.11% |
| **Global & International Indices** | | |
| MSCI World | -0.28% | 3.99% |
| MSCI EAFE | 0.33% | 3.00% |
| MSCI Euro | 0.58% | 10.20% |
| MSCI Far East | -0.12% | -5.11% |
| MSCI Japan | 0.09% | -5.80% |
| **US Economic Sectors** | | |
| Energy | -5.06% | 11.02% |
| Materials | -1.49% | 4.38% |
| Industrials | -1.35% | 7.36% |
| Consumer Discretionary | 3.45% | 8.22% |
| Consumer Staples | 5.65% | 8.87% |
| Health Care | 6.90% | 14.04% |
| Financials | -4.81% | -1.65% |
| Information Technology | -1.28% | 3.04% |
| Telecom | 2.44% | 7.10% |
| Utilities | 5.22% | 9.48% |

Source: Standard & Poors, MSCI, Bloomberg

Despite the market's surprising quarter-end recovery, the Greek crisis was hardly overcome. Resolution was simply deferred in an exercise which has come to be referred to as "kicking the can down the road". Since the pain of actually repairing the Greek debt debacle is too high for the financial system to endure, policymakers chose to avoid hard choices now hoping they might somehow become easier later. Unfortunately, such a strategy almost always results in even bigger problems later. Remember, this is already the second attempt to kick the can down the road with Greece. With no real progress on overcoming the debt problems in Greece, Ireland, Portugal and Spain, this landmine remains a serious threat to investors. Now that Italy appears to becoming part of the problem as well, it is clear this debt crisis is easily outrunning the weak responses offered by European policymakers thus far. Investors need to be alert to the fact that the end of the road may be much closer than anyone would like to admit. At any time, investors may become unwilling to participate in this increasingly risky game. Should they choose to shun these markets, many European financial institutions, and perhaps most financial markets as well, could quickly be in deep trouble as the contagion spreads.

Europe's debt problems are hardly investors' only concern. China is facing rising inflation and bad debt problems of its own as a consequence of its property bubble. Japan's recovery from disaster has been slow and no progress has been made on the US's debt and deficit problems (although we do not expect the debt ceiling issue to lead to default). Global economic growth also weakened in the second quarter. Most Stewardship Partners portfolios were ahead of the indices very near the end of the quarter as these concerns weighed on the markets and our conservative positioning paid off. The final four day surge, however, quickly turned that performance advantage around and led to most of our portfolios underperforming the indices for the quarter.

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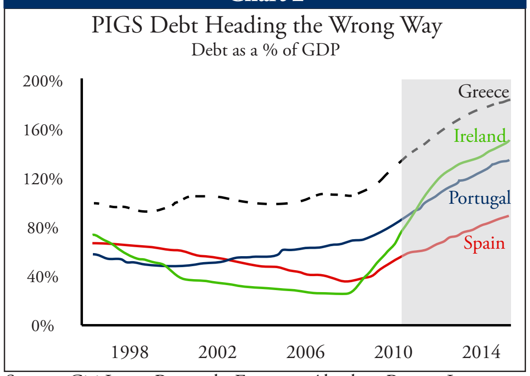
# Bad Policy Choices Means Landmine Risks Keep Getting Worse

***"Be careful not to neglect this matter. Why let this threat grow…" Ezra 4:22 (NIV)***

Stewardship Partners adopted its current conservative portfolio positioning a little less than a year ago based on significant concerns regarding economic trends. At that time, the economic recovery was both weak and stalling, while sovereign debt problems were growing around the world. Moreover, deflation loomed on the horizon. Any one of these problems individually could have triggered a sharp sell-off in equities. The prospect of a sovereign debt debacle, in particular, became the focus of our attention given the possibility it could lead to another financial system meltdown and a considerable destruction of wealth.

**Chart 2**

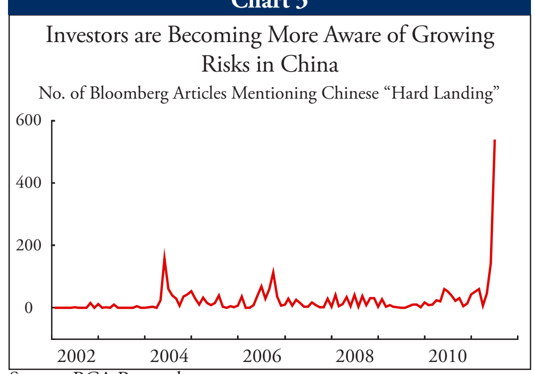



Source: Citi Invst. Research, Eurostat, Absolute Return Letter

Economic policymakers were likewise concerned and intervened in an ineffective manner. In Europe, bailouts were provided to heavily indebted Greece, Ireland and Portugal. Unfortunately, none of these bailouts actually were even intended to resolve these countries debt crisis. Instead, the objective was simply to postpone dealing with the high financial cost associated with acknowledging default. Greece is now in the process of trying to conclude its second bailout, which yet again fails to admit the fact the country is bankrupt. Sadly, Greece's debts, and its inevitable bankruptcy, are facts that cannot be altered simply by averting your eyes from the issue. Portugal is also thought to soon need a second influx of financial support to avoid default while both Spain and Italy are beginning to wobble. All of these debt problems are going to get worse (Chart 2) because Europe refuses to stop the crisis in its tracks by forcing debt holders from these countries to take losses on their sovereign bond positions. As Europe fails to act, the markets have begun providing the needed discipline to correct the situation. Such an uncontrolled resolution, however, is not a pleasant process for investors as uncertainty abounds and markets get roiled. So far in July, European stocks have fallen sharply as investors have legitimately questioned whether any resolution can be found that will avoid a banking crisis.

In the US, the Fed reacted to the threat of renewed recession and deflation by initiating its second round of quantitative easing known as QE2. Additionally, the Obama administration and Congress agreed to extend the Bush tax cuts and implement a payroll tax deduction. Still, the US economy has only been able to produce substandard growth, while unemployment has remained very high and the housing market moribund. It is clear that these policies were insufficient to set the economy on a better track. Economic historians may eventually conclude that QE2 actually did more harm than good. All the while, the US debt and deficit problems continued to spiral higher without any serious effort to confront these issues as the economic and political cost was too high. With the current debt ceiling negotiations, we expect a resolution which will once again fall well short of the solution required for long term economic stability and prosperity. Be prepared for what will likely be another "kicking the can down the road" episode.

**Chart 3**

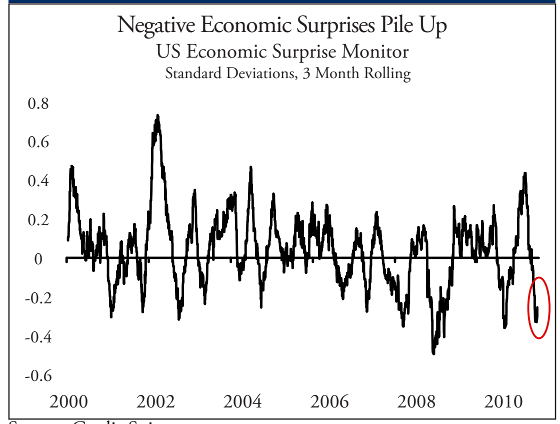



Source: BCA Research

In China, government authorities responded to the property bubble they had created - perhaps the largest ever - by jacking up interest rates, raising reserve requirements at banks and changing regulations to impede the ability of its citizens to speculate on housing. Thus far, all of these efforts have failed as housing prices have continued to rise quickly and inflation has become quite elevated. Furthermore, recent revelations about massive Chinese bad debts and tight Chinese banking liquidity have raised new red flags. More action will be necessary but one cannot help but wonder what impact a bursting Chinese property and investment bubble may have on the global economy. The world is now clearly paying closer attention to this very important issue as the number of news stories focusing on a Chinese "hard landing" has spiked dramatically (Chart 3). Meanwhile, no new efforts were made in Japan to address its massive government debt problem. Due to the natural and nuclear disaster the country is still dealing with, combined with recurring political hesitation, little progress is expected on this front anytime soon.

Fueled by the enormous liquidity washing over the financial markets from the QE2 program, the markets initially ignored these ominous trends. Stocks rallied between the announcement of QE2 in September 2010 and mid-February. By then, however, it was becoming more obvious economic growth had not been reignited and the world's debt problems were only getting worse. Since that time, share prices have struggled to advance and only conspicuously-timed rallies late in every month since March have prevented the market from realizing significant declines. As a result of the market's struggles since mid-February, our conservative portfolio positioning has shown better results with Stewardship Partners outperforming in three of the four months since March in most of our portfolios.

Chart 4




Source: Credit Suisse

Even so, we are surprised the market has not been able to sustain the sell-offs that have occurred early in each of the last four months given the disappointing economic data that has been reported more often than not lately. As seen in Chart 4, negative economic surprises reached an extreme level recently as one disappointment followed another, thereby dashing misplaced investor expectations of renewed vigor in the global economy. While the flagging economic recovery is disconcerting and raises serious concerns of a potential renewed recession, the main reason for our maintaining a conservative approach in Stewardship Partners portfolios are the debt-related landmines. These problems have the potential to cause sudden systemic failure in the global banking system that would result in widespread wealth destruction. As in 2008, all asset classes would likely be negatively impacted, perhaps with the exception of US Treasuries and gold. While we acknowledge the chance such a nasty turn of events is likely below 50% at this time, it continues to rise due to the unwillingness of policymakers to make the tough choices needed to start reducing sovereign and private debts, force the recapitalization of weak banks and alter policies to allow the private sector to take the leading role in determining our economic future. Until such actions are taken, and the landmine risk begins to recede rather than grow, we suspect investors will become increasingly anxious. They may also become less accepting of new attempts to kick the can down the road. Moreover, we believe policymakers are running out of effective tools to kick the can further in any event. If we are right, the markets may soon falter both early and late in the month!

## Limited Policy Options Raise Risks of Renewed Recession

***"They will stumble repeatedly, they will fall over each other" Jeremiah 46:16 (NIV)***

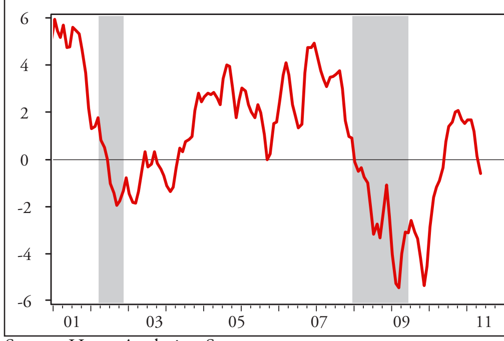
The markets have begun to recognize these increasing risks. From mid-February through the end of the second quarter, both the S&P 500 and the MSCI World Index fell roughly 1%. The decline would have been closer to 6% without the four day advance at the end of June. During just the two months of May and June, the S&P 500 fell 2.8% and the MSCI World Index dropped 3.6%, numbers that would have been -7 to -8% had the late rally not occurred. The weakness displayed in the market recently is justified as no one can legitimately argue the global economy is currently firing on all cylinders. Consider the following meaningful drags on US economic growth:

1.) QE2 monetary stimulus ended on June 30th
2.) Fiscal stimulus will soon wane
3.) Unemployment is high and rising in the US
4.) Home prices are low and falling
5.) Real wage growth in the US is negative (Chart 5)
6.) Inflation is rising
7.) Regulatory burdens on business are growing
8.) Government economic policies are not inspiring confidence
9.) Continuing consumer deleveraging
10.) Low consumer confidence

Accordingly, it is no wonder previous stimulus efforts have come up short. Moreover, outside the US, the landmines in Europe, China and Japan are further threats to prosperity weighing on economic growth by causing both consumers and businesses to be more cautious. Offsetting these negatives are the still strongly accommodative monetary policy (near zero interest rates and the Fed's reinvestment of maturities from their bond portfolio into US Treasuries), continued high levels of fiscal stimulus, strong corporate earnings and, more recently, falling oil prices. We also suspect the inevitable political compromise reached to raise the debt ceiling will contain additional short term fiscal stimulus measures. If employment does not soon recover, however, policymakers will be searching for additional ways to stimulate the economy above the low rate of growth witnessed over the last year. The current "stall speed" rate of growth is brushing too close to recessionary levels and is therefore too low to pull housing and employment higher. Naturally, Democratic politicians – particularly because an election is looming – and the Fed will be looking for ways to jumpstart the economy yet again.

**Chart 5**

Inflation Adjusted Wages are Falling
Wage & Salary Disbursements less CPI inflation - YOY % Change




Source: Haver Analytics, Strategas

Unfortunately, policymakers are finding their options increasingly limited. While many investment professionals seem to have their hopes pinned on a QE3 program, as the primary result of the previous programs was to enrich Wall Street, the Fed has pretty clearly indicated it is unlikely to go that route at this time. It is hard to see the Fed launching another QE program unless share prices first fell considerably. Even then, the QE approach may have been discredited enough to prevent another attempt. Also, the Fed cannot be happy with the huge increase in its balance sheet caused by its previous QE programs. With inflation on the uptick (Chart 6), the Fed is even more unlikely to pursue further QE. If inflation continues to rise, the Fed will be completely boxed in and unable to assist in promoting economic growth. It may, in fact, need to take actions which would actually impair further the growth prospects of the US. If inflation expectations remain contained, however, we would expect the Fed to be creative in devising policies aimed at helping lower unemployment and promoting economic growth. Still, there can be little doubt the marginal utility of any new Fed policy may be low as they now have to dig very deep into their bag of tricks to conjure up helpful policies. The end of the monetary stimulus road may be nearby and might have already been reached.

**Chart 6**

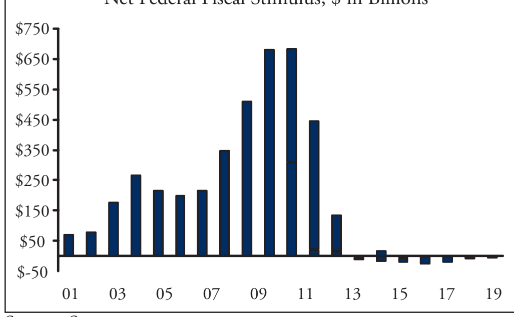
Inflation Pressures Building
US CPI, YOY % Change


Source: Bureau of Labor Statistics, Strategas

Similarly, Congress and the President are hamstrung by a divided government, very different party views of the appropriate fiscal policies, voters who desire austerity without ramifications to their pocketbook and the already bloated deficit. Moreover, it is in the Republican's political interest to keep the economy weak and the voters focus on debt and deficit problems until the 2012 election. In this environment, it is almost impossible to imagine a compromise solution can arise which will encourage the financial markets greatly. More than likely, the can will simply be kicked down the road again and little meaningful changes will occur. We do, however, suspect some additional short term stimulus may be part of the debt ceiling settlement, possibly in the form of extended and/or enhanced payroll deductions. Still, it will be difficult to maintain, let alone expand, fiscal stimulus in 2012 and beyond (Chart 7), even if every fiber of the Washington elite would like to do so. Fiscal policy may have a little more road left to kick the can down, but not much.

**Chart 7**

Fiscal Stimulus Soon to Wane
Net Federal Fiscal Stimulus, $ in Billions




Source: Strategas

While the extremely weak June unemployment report added to an already long list of worrisome data, Stewardship Partners believes, absent an economic shock, continued low economic growth is more likely than a recession. Our confidence level, however, is not high and new economic data releases could lead to a change in that assessment. Hopefully, fresh economic reports will soon begin to consistently surprise on the upside.

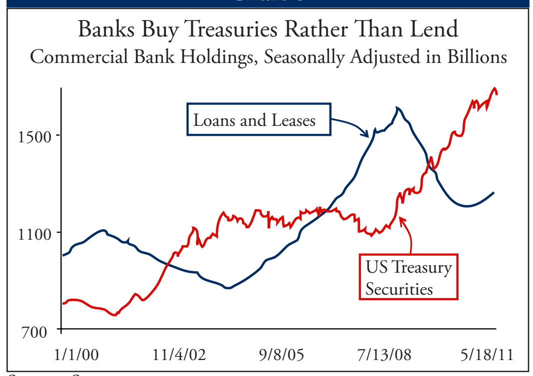
Overseas, policymakers are also running out of good options to kick the can down the road. China's inflation continues to accelerate; therefore further interest rate hikes and other tightening policies, including raising the value of its currency, almost certainly need to be employed. The risk of a hard landing in China, including a potentially destabilizing property bubble bust, is escalating. Any sudden deceleration in China's growth would negatively impact Japan just when this country can least afford another economic blow. It would also hurt German exports and possibly throw all of Europe into a recession. Much of Europe is already teetering on the brink of a recession and Ireland, Portugal and Greece are already facing significant declines in economic activity. Clearly, if one or more of these overseas landmines is set off and a financial crisis ensues, the US could easily tip quickly into a recession. The global economy is in a very delicate spot where any misstep or unexpected event could lead to very serious consequences. Wise investors would be well-advised to not ignore these wealth-threatening risks, even if Wall Street continues to do so.

# Joe the Plumber was Right, but He got it Backwards

*"Instead, you yourselves cheat and do wrong, and you do this to your brothers." 1 Cor 6:8 (NIV)*

Wall Street has displayed peculiar patience given the inability of policymakers to defuse the debt landmines or jumpstart growth. Some believe the incredible short term focus of the market is to blame. This is a function of trading being dominated by computers focused solely on small pricing discrepancies and humans utilizing primarily technical indicators. As a result, the market seems no longer able to function as a proper discounting mechanism since most of its participants do not incorporate macro risks and opportunities as effectively as they once did. Clearly, however, the strong corporate earnings performance since 2009, led by a rapid and sizable rebound in the financial sector's profits, has helped shares fend off increasingly frightening economic worries.

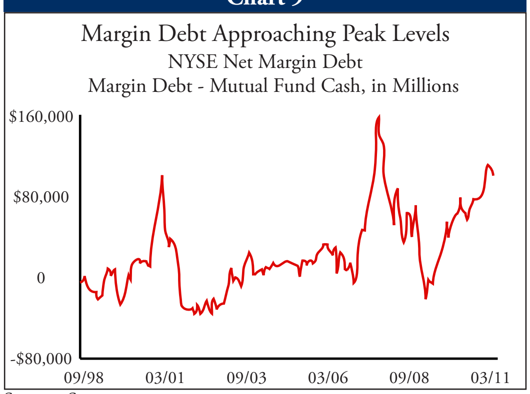
**Chart 8**




Source: Strategas

To be sure, the financial sector has benefitted as Wall Street have been one of the few winners from the current government's economic policies. Amazingly, not only have Wall Street bosses escaped prosecution for their role in the collapse of the financial system in 2008, but also their firms have largely been able to avoid new regulations which would constrain their behavior in order to limit the chances of another collapse. As a result, the good times are rolling again on Wall Street while Main Street continues to struggle. As Wall Street financiers make easy money borrowing from the government at ultra-low rates and then reinvesting in other government securities at higher rates (after levering up the portfolio with margin debt to increase their returns), the average Joe cannot get a safe return on his hard-earned savings. The interest spread bankers earn is essentially coming out of the taxpayer's pocket. Meanwhile, the only safe return an average citizen can get is a negative one, after considering inflation. Banks are unwilling to lend him much money either. Easy money policies meant to improve the economy are mostly lining Wall Street pockets with public money. Chart 8 highlights the rapid growth in bank holdings of US Treasury securities while lending remains constrained. It is no wonder that Wall Street office rents are approaching their 2007 peak while home prices are still falling. It is also not surprising that Tiffany's and Nordstrom's sales are up significantly while Wal-Mart has seen its same stores fall eight quarters in a row. Joe the plumber was right about Obama wanting to redistribute the wealth, he just did not realize that Obama meant to take it from the average bloke and give it to Wall Street! But Washington D.C. have benefitted as well as it is currently the only real-estate market in the US experiencing rising home prices.

**Chart 9**




Source: Strategas

This hollowing out of Main Street's savings to allow an unrepentant Wall Street to gorge at the public trough is not only outrageous; it is damaging the core fabric of our country. Should anyone be surprised when unemployment remains stubbornly high because small businesspeople cannot get bank financing to expand and are also suffering negative returns on their savings? Large corporations can easily access the markets for incredibly cheap funding and thus are enjoying earnings growth. Big corporations, however, recognize government policies are unsustainable and could lead to serious problems for the economy. Therefore, most are mostly sitting on their savings. Meanwhile, hedge funds and others have increased margin debt significantly. The level of net margin debt in the market is now equal to that seen at the peak of speculation in 1999-2000 and is approaching 2008 levels (Chart 9).

High levels of margin debt always present a risk for share prices. Unfortunately, Chart 10 reveals speculators may soon be looking to repay those debts – global earnings revisions have turned negative, led by the financial sector. Even Wall Street is now beginning to struggle. If earnings estimates continue to falter in the months ahead, share prices will certainly be at risk as strong earnings growth has been one of the few supports for stocks over the last year.

**Chart 10**


Source: Credit Suisse

# What Might Go Right?

***"We wait in hope for the Lord. He is our help and our shield" Psalm 33:20 (NIV)***

No one can reasonably argue the environment for investors is favorable at the moment. Uncertainties abound and the lack of clarity regarding how these serious problems can be resolved without negatively impacting share prices is troubling.

At Stewardship Partners, however, we have always made it our practice to look through the ever-present short term worries afflicting the financial markets and focus on how individual companies are succeeding in creating shareholder wealth. Throughout most of our over three decades of investing, this was a suitable approach since the financial system was never really seriously threatened. Problems would come and go, but these always went away without undermining the very fabric of capitalism – the financial system. The Great Recession, however, has required us to update our thinking. Irresponsible unfunded government spending piled upon already weak sovereign balance sheets has led to an almost certain default among some smaller developed nations. These bankruptcies have not yet been formally acknowledged and dealt with simply because the banking system is too weak to withstand the blow. Financial system chaos would likely ensue if the charade of solvency was ended in Greece and other European countries. Recently, we came within five votes by Greek politicians from setting off financial mayhem. Larger developed countries have also gotten into unsustainable debt positions. These difficulties can still be corrected, but probably not without a high cost politicians, voters and shareholders seem unwilling to pay. With hedge funds still gorging on margin debt, embracing inadequate transparency and increasing the use of risky derivatives, systemic threats still abound. It would be foolhardy to pretend these dangers are not real, especially given that the stakes are so high.

Accordingly, we have positioned our portfolios cautiously, a strategy that has begun paying benefits in recent months and which we believe remains appropriate today. Even so, we have trained ourselves to ask the question "What could go right?" during periods of market turmoil. Human nature is often so focused on what could go wrong the possibility of favorable outcomes is often overlooked, even when things are going well! In the current situation, growth, statesmanship and fortuitous timing are probably the most important factors needed to restore the global economy and financial system to a pathway towards health.

As the world's largest economy by far, the scale of the debt problems in the US are also the largest. Nevertheless, of all the landmines we are concerned about, the US debt and deficit seems least likely to cause a devastating blow at this time. If politicians can find it within themselves to put the needs of the country first, the tough decisions needed to put the nation on a more credible and sustainable path could be made. The US does not need anything more than a credible plan to show the markets how deficits will be reduced over the years to sustainable levels. Nothing would promote long term economic growth more in the US than such a credible plan. Additionally, a dose of fortuitous timing regarding wars and natural disasters would be helpful. In our view, a crisis will be required to forge the political will to produce the needed credible plan. We may be closer to this point than most imagine. Meanwhile, the markets may have a hard time sustaining rallies as this unfolds and will no doubt tumble as a crisis eventually materializes.

In Europe, a credible plan is also needed. Unfortunately, it will be even more difficult to pull together due to the political realities. In this case, however, the crisis is already upon the Europeans and it may prove sufficiently grave to cause the politicians to act as statesmen. Benjamin Franklin once said, "If we do not all hang together we will assuredly hang separately". This certainly applies to the Europeans and the Euro. If Europe is able to buy time to recapitalize its banks, it may avoid a calamity. They will need a heavy dose of fortuitous timing to pull this off.

China faces a huge property bubble of its own making, but also has a strong national balance sheet which should help it avert a total system collapse. While the bubble will burst, its consequences for the global economy could potentially be partially contained. If China can maintain strong growth, this too will help it more quickly grow out of its bad debt problems, which are mostly found within its regional governments. Transparency is also seriously lacking here, however, and the problems may be worse than we now believe.

While there may be a way out of these huge difficulties, we do not yet see enough evidence to warrant changing our cautious portfolio positioning. In the end, we will likely get more optimistic just as the markets finally start to react with greater fear to these many threats. While it is possible the global economy will dance around the landmines without setting them off, it is unlikely.

***We at Stewardship Partners continue to be grateful for the opportunity to serve your investment needs. Please do not hesitate to contact us if you have any questions or if we can be of assistance.***

STEWARDSHIP PARTNERS
Biblically Responsible Investing COMMENTARY

# Biblically Responsible Investing (BRI)- Investing as Jesus Would

***"Blessed are they that maintain justice, who constantly do what is right." Psalm 106:3 (NIV)***

Stewardship Partners, founded in 2000, is a leader in the field of investing with a Christian perspective, a form of Socially Responsible Investing (SRI) known as Biblically Responsible Investing (BRI). Rusty Leonard, CFA, Stewardship Partners' founder and CEO, practiced this investment philosophy while managing over $3 billion of assets as a portfolio manager from 1989 to 2000 with the Templeton organization. He also had the privilege of working directly with the world-renowned global mutual fund manager, Sir John Templeton. **By employing a BRI approach to investing, Stewardship Partners seeks to achieve long-term capital gains through ownership in securities of companies that are a blessing to mankind. Conversely, we seek to avoid profiting from owning companies engaged in sinful activities that bring physical and spiritual loss to our fellow man. Our heart's desire is to do no harm to our fellow man in the process of being the best possible guardians of the wealth the Lord has given us stewardship over.** Simply put, a "what would Jesus do" approach to portfolio management is what we seek for our clients.

Below are just some of the issues of concern to Stewardship Partners and the specific sinful activities that fall into each category:

1. **We desire *<u>justice and mercy for the defenseless</u>* so we screen out companies involved in:**
   - Abortion
   - Life destroying or distorting scientific research
   - Human rights issues such as religious persecution, terrorism and political oppression

2. **We desire *<u>justice and mercy for the poor</u>* so we screen out companies involved in:**
   - Greed-based marketing techniques
   - Discrimination and unjust labor practices
   - Any abuses of the poor, children and/or the elderly

3. **We have *<u>compassion for those addicted and/or engaged in sinful lifestyles</u>* so we screen out companies involved in:**
   - Alcohol, Gambling and Tobacco
   - Pornography
   - Homosexuality (those companies deemed to be the most active supporters)

4. **We want to *<u>protect marriage and the family</u>* so we screen out companies involved in:**
   - Entertainment that seeks to destroy biblically-based attitudes
   - Efforts to promote lifestyles the Bible indicates are sinful

**Additionally, we favor companies that clearly embrace:**

- Honesty, Compassion, Diligence, Prudence and Creativity
- Support for quality products at fair prices and constructive stakeholder relations
- Support for a sustainable and healthy environment
- Support for charitable giving
- Support for the Jewish people and the state of Israel

**Armed with this information, we are then prepared to make as strong an effort as possible to build investment portfolios which reflect our client's biblically-based Christian worldview. We obtain the information on both the objectionable practices and the exemplary attributes of corporations from our affiliate The Biblically Responsible Investing Institute** (www.BRIInstitute.com). We believe BRII gives Stewardship Partners the most comprehensive database of BRI information that currently exists.

**It is our hope that, over time, we and other firms like ours may be able to gather enough assets under management to influence corporate behavior in a positive manner with biblical principles and wisdom.** As things presently stand, a biblically-based Christian message is not being heard as effectively in the corporate marketplace as it should be since the amount of money dedicated to BRI, while growing rapidly, still falls far short of that in the typically more liberally-biased SRI funds.

For a more in depth study of the topic of Biblically Responsible Investing (BRI), please see our paper entitled ***"The Scriptural Basis for Biblically Responsible Investing."***

## BRI in Action – Comparing Good and Bad Corporate Behavior

***"Love must be sincere. Hate what is evil; cling to what is good." Romans 12:9 (NIV)***

Below you will find an example of both a company that exhibits exemplary attributes, Waters Corp., and one we avoid, Cash America. We own Waters Corp. in some Stewardship Partners portfolios while we actively avoid ownership in the Cash America in order not to be co-owners in enterprises engaged in or supportive of activities which are harmful to our fellow man and our Lord's creation. **We believe, in the long run, both countries and companies that best align their activities with biblical principles will achieve the greatest success.**

## The Good – Waters Corp. – Innovation, Sustainability & Charity

***"Instruct them to do good, to be rich in good works, to be generous." 1 Timothy 6:18a (NIV)***

Waters Corp. was founded in 1958 in the rented basement of the Framingham, MA police station by inventor and scientist Jim Waters. The company began as a scientific research boutique where Jim and five scientists would build unique instruments scientists required to continue their advancements. One of these projects for Dow Chemical led the company to its first big break in liquid chromatography instruments. Dow Chemical eventually took an equity stake in Waters but in the 1990's Waters was acquired by Millipore. After several years of unfulfilling partnership, Waters management team bought the company back from Millipore. A long, strong period of growth that has continued until the present as the company recaptured its entrepreneurial spirit. The company now designs, manufactures, sells and services analytical technologies for liquid chromatography, mass spectrometry and thermal analysis. Waters has revenues exceeding $1.6 billion and employs 5,400 people. In line with the company's longstanding emphasis on quality, 2,400 of the company's employees are sales and service staff. Waters has grown from the police station basement to marketing its products in fifty countries with operations in 27 countries. It also has eleven manufacturing facilities. Moreover the company is a member of the S&P 500. Waters focus on quality, innovation and ensuring the success of their clients' work has enabled the company to successfully grow its operations for more than fifty years.

Waters' mission is to develop innovations and foster enduring partnerships that enable scientific and humanitarian advancements through the success of our customers. Addressing the challenges of today and tomorrow is fundamental to what the company refers to as "The Science of What's Possible". What other companies call sustainability programs, Waters refers to as "our daily responsibility". The company's efforts are critical to the success of scientists working on matters that will have great influence in a variety of critical areas for our future. Waters works with researchers at universities and pharmaceutical companies worldwide to discover cures for diseases and develop life-saving drugs faster and more affordably. The company also works with environmental and food safety laboratories to explore new ways to detect pollution and ensure safe food and water supplies. The company recently introduced a new system for liquid chromatography, which if fully implemented across the scientific industry, would cut the use of chemicals by 95% while also reducing energy consumption dramatically. Presently, Waters is working closely with government authorities in both China and India to help improve both nations' ability to meet stringent international food safety guidelines and attain higher environmental standards. Waters is currently working with the US EPA to develop tools for water utilities to be able to quickly analyze drinking water samples for evidence of chemical warfare agents and other harmful substances. In addition to helping others improve the sustainability and environmental impact of their operations, Waters also has implemented many programs to reduce its own environmental footprint.

Waters, like all wise companies, recognizes its employees are its most important asset. As a result, it offers a wide range of benefits and growth opportunities for its staff. Medical insurance, sickness and disability programs, paid leave, employee assistance programs, life insurance and retirement planning services are among the benefits employees enjoy. The company also works hard to avoid workplace injuries. Regular audits of its facilities by both internal and external groups are undertaken by the company to identify areas requiring improvement in order to protect employees. Where employees face hazardous work conditions that are impossible to mitigate through other means, the company provides needed safety gear and intensive training. One external auditor performed 30 initial and follow-up site visits to help reduce employee risks. Reflecting the company's extensive efforts on behalf of their employees, in 2008, Waters was named by the Boston Globe as one of the best places to work in Massachusetts. The company also seeks to excel in the area of corporate governance so that the workplace environment for its employees is as attractive as can be. For more than five years, the adoption of "best in class" corporate governance initiatives by Waters has garnered it a Corporate Governance Quotient from the independent Risk Metrics Group that has been among the highest within our industry.

Waters also has demonstrated a strong commitment to and compassion for those outside of its organization who are in need through its charitable initiatives. Waters focuses on supporting organizations dedicated to education and healthcare, in addition to actively supporting local organizations dedicated to the arts, health and human services, recreation, education, and the environment. Waters has providing grants for students seeking advanced degrees and supported science education through museums and community school systems. The Waters Scholarship Program, in place since 1998, provides undergraduate scholarships to children of its employees worldwide who display academic excellence and potential. Waters has also established a long term partnership with the American Red Cross as it believes it has a responsibility to help all those worldwide whose lives have been severely impacted by natural disaster. In 2006, Waters won the Circle of Humanitarians Award from the Red Cross due to both its corporate and employee engagement with the charity.

***Waters' good works are, of course, no guarantee of long-term investment success. As Biblically Responsible Investors, however, the company's efforts to promote food safety, a clean environment and its good treatment of its employees allows us to know we are shareholders in a company seeking to be a blessing to all. While no company, like no person, is perfect, this is clearly a company that strives to be a good corporate citizen and one we can be proud to own!***

## The Bad – Cash America – Taking Advantage of the Poor

***"Things that cause people to sin are bound to come, but woe to that person through who they come." Luke 17:1 (NIV)***

Cash America International is a specialty finance company that specializes in offering financial services to the poor. These services include pawn shops, payday loans, income tax refund anticipation loans and check cashing services. It has been in business for 27 years and has over 1,000 pawn shops located in the US and Mexico. As a result, we believe it is the largest such enterprise in the US. Typically, the interest rates that are implicit in the terms of the loans and other services the company provides to those of lessor financial means are exorbitant. At times, the effective interest rate on such services can exceed 50-100% annually. Additionally, other terms of the agreements the company has with its poor clients can be onerous and demeaning.

The Bible contains extensive teaching on the need to help the poor. Of all the verses in the Bible which address the realm of wealth and finances - about 2,300 in total – by far the largest portion are aimed at giving guidance to believers about how they should reach out in compassion to those who are needy. As a result, Biblically Responsible Investors need to take into account corporate activity that is at odds with such teaching. Clearly, the outrageous interest rates charged by Cash America fail to reflect the Bible's admonishments about caring for the poor and needy. While the poor need access to adequate financial services, it is unfortunate that some companies like Cash America resort to abusing the poor while providing these needed services.

***Excluding Cash America from our list of potential investments is not a difficult decision. As BRI investors seeking to please and honor our Lord, we naturally look elsewhere to achieve investment success as we do not want to be associated with a company using shareholder resources in a manner which have a negative impact on individuals and society in general.***

## Our Ultimate Goal - Funding the Lord's Work

***"Therefore go and make disciples of all nations." Matthew 28:19a (NIV)***

**It is our hope that Stewardship Partners' ability to create an abundance for you will help you to share with those who are in need and assist in fulfilling the Great Commission. Our non-profit ministry affiliate, Wall Watchers, provides a free service to help you educate yourself about the many wonderful Christian giving opportunities available to wise donors. We invite you to join the thousands of visitors to our ministry's website at** www.MinistryWatch.com, the Internet's top site for donors to Christian ministries. Should you desire to have someone show you how to best use this site, please contact Rod Pitzer at 866-364-9980 or rpitzer@wallwatchers.org. We would be pleased to be able to help you bless God's people who are in need. Please be sure to check out our 2010 list of our thirty Shining Light Ministry Award winners as well as our companion list of thirty ministries that are subject to a Donor Alert from MinistryWatch.com.

## Featured Ministry – Eternal Perspective Ministries

***"Your throne was established long ago; you are from all eternity" Psalm 93:2 (NIV)***

Eternal Perspective Ministries is the ministry of author and teacher Randy Alcorn. Founded in 1990, the ministry is dedicated to teaching principles of God's Word and assisting the church in ministering to the unreached, unfed, unborn, uneducated, unreconciled, and unsupported people around the world. "My ministry focus is communicating the strategic importance of using our earthly time, money, possessions and opportunities to invest in need-meeting ministries that count for eternity," Alcorn says. "I do that by trying to analyze, teach and apply the implications of Christian truth." Alcorn has written over 40 books including "Money, Possessions and Eternity", "The Treasure Principle" and "Heaven" and is a frequent guest on radio and TV programs.

Alcorn's personal testimony is compelling. He was involved in a peaceful protest against an abortion clinic. The clinic sued him and won a large monetary judgment. Alcorn was a pastor at the time and his salary would have been garnished to pay the abortion clinic had he not resigned. Any salary he made over minimum wage would also be garnished. As a result, he has worked for minimum wage at his ministry for many years. His very successful books have generated handsome royalties, but the ministry receives these rather than Alcorn directly. The ministry, in turn, offers as many products as it can for free and also donates money to other worthy ministries. Donors will be impressed not only with Alcorn's excellent teaching, but also the ministry's well-run operations.

***Eternal Perspective Ministries is a very worthy ministry that has excelled in teaching the Word and maintaining a high level of financial integrity. Additionally, the ministry effectively utilizes the financial resources donors entrust to it as reflected by the Five Star Financial Efficiency Rating earned from MinistryWatch.com. EPM is also a 2010 MinistryWatch.com Shining Light Award winner and is worthy of consideration for your financial support.***

## The Christian Ministry Marketplace – Helping Donors Give Wisely

***"A generous man will prosper, he who refreshes others will himself be refreshed." Proverbs 11:25 (NIV)***

Much like the stock market provides for a sensible and efficient allocation of capital in our economy, the rise of a Christian Ministry Marketplace is providing donors with a myriad of helpful resources to maximize the impact and joy of giving to the work of the Lord. As donors begin to take their giving as seriously as their investing, they will find the assistance offered by the groups listed below to be invaluable. By utilizing these resources, donors are not only likely to make better personal giving decisions, but are also contributing to the growth in the marketplace itself. By so doing, they are helping to lay a foundation for wiser giving for all who follow in their footsteps. Accordingly, we encourage donors to investigate how these groups might help you to give more wisely, achieve a greater impact and create increased joy for both yourself and receivers of your gifts.

## The Christian Ministry Marketplace
### Resources for Christian Donors

**WHY**
to give to Christian ministries?

**Teaching on Stewardship:**

- Crown (crown.org)
- Eternal Perspectives (epm.org)
- Generous Giving (generousgiving.org)
- Royal Treasure (royaltreasure.org)
- Sound Mind Investing (soundmindinvesting.com)
- The Gathering (thegathering.org)
- MaximumGenerosity.org (maximumgenerosity.org)

**HOW**
to give with a discerning mind?

**Professional Advisors:**

- Kingdom Advisors (kingdomadvisors.org)
- National Association of Christian Financial Consultants (nacfc.org)
- National Christian Foundation (nationalchristian.com)

**Donor Advisors:**

- Excellence in Giving (excellenceingiving.com)
- Calvin Edwards & Co. (CalvinEdwardsCompany.com)
- Kardia (http://www.kardiaplanning.com/)

**WHERE**
to invest in kingdom ministries?

**Ministry Research:**

- ECFA (ecfa.org)
- MinistryWatch.com (ministrywatch.com)
- Samaritan's Guide (acton.org/cec/guide/)

**Ministry Mutual Funds:**

- Nat'l Christian Fdn (nationalchristian.com)
- Strategic Resource Group (srginc.org)

Online Donation Services:

- Network For Good (networkforgood.com)

## Featured Ministry Marketplace Participant - The NACFC

***"The way of a fool seems right to him, but a wise man listens to advice." Proverbs 12:15 (NIV)***

The National Association of Christian Financial Consultants (NACFC) is a group of investment professionals committed to investment and financial planning disciplines centered upon Biblical principles. NACFC's mission is to provide educational resources, fellowship support, and Biblical standards for professional investment counselors seeking to integrate Bible-based investing principles within financial counseling practices. The group was founded in 1997 by The Timothy Plan's Art Ally and held its first annual conference in 1999. Currently, the organization is led by John Wierenga, a Christian financial advisor from Michigan.

Members of the NACFC are required to testify to their personal relationship with their Savior Jesus Christ. Additionally, they must be in good standing with industry regulators, commit to integrating biblical principles into their money management practice, commit to being good stewards of their clients assets by avoiding investing in companies whose products, services and/or corporate policies violate biblical principles and publicly proclaim that their businesses, indeed their lives, are gifts from the Lord over which they are accountable to provide good stewardship over. Members are encouraged to view their investment counseling practices as their ministry.

NACFC, in turn, provides members with educational resources and fellowship to enable financial advisors to excel in providing biblically-based investment services to their clients. The annual conference is the highlight of the year for NACFC members. Excellent speakers bring both sound Christian teaching and practice management advice to attendees. The most anticipated aspect of the conference is the opportunity to fellowship with other members and to meet vendors of relevant products who display their wares. Newsletters, e-mail updates, marketing materials and an internet-based referral service are other worthwhile benefits members enjoy. Additionally, the NACFC offers the Christian Financial Counselor & Advisor (CFCA) designation for those members wishing to pursue this training.

## *Knowing Jesus Christ as Your Lord and Savior*

While most of those reading this will have already established a personal relationship with Jesus as their Lord and Savior, it is very likely that many have not. If you are someone who has not yet turned your life over to your Creator, we would have failed you miserably if we presented only information relating to your investments yet did not share with you the most important information of all: truths which have eternal significance for your soul and that will have an overwhelmingly positive impact on your life on this earth.

The gospel message is a simple one, far less complicated than the global impact of rising oil prices or the effect of a revaluation of the Chinese currency. For most people, the first part of it is easy to relate to – you are a sinner. If you are anything like the rest of us (and you are) more often than you probably would like to admit, you either do, say or think something that is clearly wrong and which you are ashamed of. "But what's the big deal", you might say. "If everyone has this problem with sin, can't we all just accept the fact and try our best to get along?"

Well, on this earth, that is exactly what we try to do. We forgive one another's faults and press on with life. From an eternal perspective, however, there remains a problem. Our Creator, who loves us with a love that can only be described as extravagant, has prepared an eternal home for us that He very much desires to share with us. Unfortunately, in our sinful state, we are unable to enter into heaven, which is by its very nature perfect. Desperate not to be separated from us for an eternity, our God devised the only possible solution – a divine exchange. He sent His very own son, who was perfect and thus without sin, as a sacrifice to pay the penalty for our sins. In this exchange, Jesus bore, through His death, all of our sins, so that we in turn could receive all the glory that was due to Him. He was made sinful while we were made perfect and, in our now perfect state, we are able to enter into the eternal home our Lord has prepared for us.

What then gives each of us access to participate in this divine exchange? By responding to this incredible demonstration of extravagant love by our God through an amazing act of your own. As you let the realization of just what your Lord has done for you filter through your heart, mind and soul, you will unavoidably desire to humbly come before Him, acknowledging that it was your sin that led to His sacrifice and recognize His Lordship in your life. And with this step of faith, the divine exchange is completed in your life, and along with it, the assurance of eternal life with a Lord whose love for you knows no bounds. If you have not done so already, we encourage you to take this time to contemplate the issue of your eternal destination and to take that step of faith that will make all the difference in your life, both now and eternally. Based on my experience and the experience of literally millions of others throughout history, it is the most satisfying, enriching and worthwhile choice you will ever make. Years of wonderfully inspiring spiritual growth await you and, if the Bible ever seemed confusing to you in the past, you will now find its wisdom leaping off the pages and into your heart.

If we at Stewardship Partners can be of any assistance to you in this all important matter of your eternal destiny, please do not hesitate to contact us. Like Jesus, we also greatly desire to share an eternal heavenly home with you!



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