STEWARDSHIP PARTNERS

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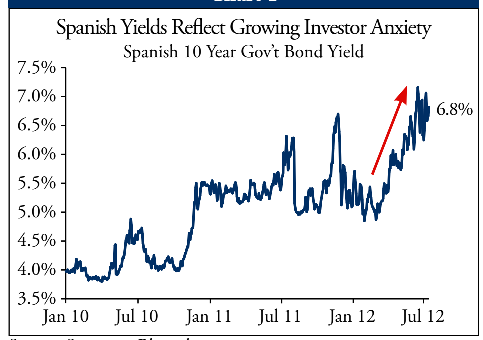
Equities Falter in Second Quarter as Troubles Accumulate

"The Lord is good, a refuge in times of trouble. He cares for those who trust in him." Nahum 1:7 (NIV)

After the oversized, European Central Bank (ECB)-induced run-up in share prices in the first quarter, some consolidation during the second quarter could be expected, even if there were few reasons for it. Stocks typically do not go straight up for extended periods without some back-tracking. During the second quarter, however, many developments arose which gave investors sufficient justification to take a more cautious approach. First, the impact of the ECB's $1.1 trillion injection of funds into the European banking system lasted far less than expected as concerns, expressed best by rising interest rates on Spanish debt (Chart 1), quickly accumulated regarding Spain. Second, Greek elections initially ended in a stalemate, exposing Europe to the disconcerting prospect a second election would put the anti-Euro party in power, thereby undermining the Greek austerity program and again threatening the viability of the European banking system. As a result of this unexpected turn of events, markets around the world collapsed during May. Fortunately, the Greeks voted in mid-June to stay on the austerity course and remain in the Euro, thereby avoiding, for now at least, a potential calamity. Third, global growth began faltering with China and US slowdowns adding to the recessionary conditions in Europe. China's deceleration caused commodity prices to collapse with energy prices being especially weak. Many are now wondering, as we have for some time, whether China's purported economic growth is being intentionally overstated by government authorities. There are many anecdotal pieces of information which seem to indicate China's economic growth is worse than the 7.7% GDP advance it recently reported. Many other serious issues also materialized in the second quarter as well, including more destabilizing incidents in the Middle East, JP Morgan's huge derivative trading loss, revelations about major banks manipulating Libor, municipal bankruptcies in the US, the Supreme Court's decision on Obamacare and a dramatic collapse in government bond yields in those countries still deemed to be safe havens. Rates on short-term bonds in Switzerland and Germany, among others, have actually fallen into negative territory where the bondholder is paying the government for the privilege of owning the bond! Clearly, we live in extraordinary times.

Chart 1



Source: Strategas, Bloomberg

Table 1

2Q12 & YTD Total Returns

US Indices	2Q12	YTD
S&P 500	-2.75%	9.49%
S&P 500 Value	-3.58%	8.92%
S&P 500 Growth	-2.05%	9.97%
NASDAQ	-4.78%	13.28%
S&P 400 (Mid Cap)	-4.93%	7.90%
S&P 600 (Small Cap)	-3.58%	7.98%
Treasury Bonds	3.00%	1.67%
High Grade Corp. Bonds	2.37%	4.87%
Gold	-4.25%	2.16%
Global & International Indices		
MSCI World	-5.07%	5.91%
MSCI EAFE	-7.13%	2.96%
MSCI Euro	-10.24%	0.43%
MSCI Far East	-6.80%	4.39%
MSCI Japan	-7.30%	3.14%
MSCI Emerging Markets	-8.89%	3.93%
US Economic Sectors		
Energy	-5.99%	-2.34%
Materials	-4.19%	6.53%
Industrials	-3.56%	7.35%
Consumer Discretionary	-2.60%	12.95%
Consumer Staples	2.88%	8.57%
Health Care	1.75%	10.97%
Financials	-6.83%	13.71%
Information Technology	-6.68%	13.34%
Telecom	14.13%	16.50%
Utilities	6.55%	4.82%

Source: Bloomberg

Astounding events may remain the norm for some time to come. Never before in our long involvement in the financial markets has the investment landscape been filled with so many different potential outcomes. Due to the heavily indebted state of most governments, unprecedented government interventions and the uncharted territory into which monetary policy has travelled, the future of the financial markets stands a good chance of being either very good or very bad. With corporations managing their affairs very effectively, share prices could easily rebound strongly if the global economy can simply muddle through the various economic and political headwinds without suffering a serious setback. Should another banking crisis occur, however, equities would certainly be hurt badly. We believe continued government interventions will be utilized to avoid the latter and are therefore hopeful a strong second half performance will produce a good year for investors in 2012. Still, many landmines remain which could cause trouble.

Stewardship Partners' performance in the second quarter was certainly less than we had hoped for. Defensive sectors such as Telecoms and Utilities, which we typically have low holdings in, were the best performing areas. Our stock selection also hurt us. It was simply a Job-like quarter where nothing much went right for us and we are glad to put it behind us.

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Global Growth Slowing Amid Some Signs of Hope

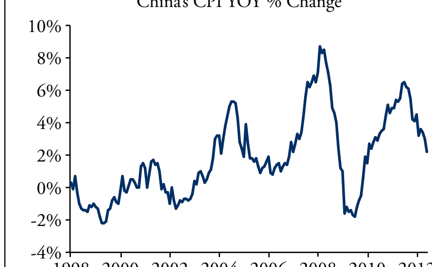
"Let us hold unswervingly to the hope we profess, for he who promised is faithful." Hebrews 10:23 (NIV)

The dominant theme in the global economy currently is slower growth. The powerful forces of austerity, deflation and deleveraging are combining to undermine stronger growth trends normally evident during an economic recovery. Moreover, the inability of legislators in the developed nations to produce a credible, affordable plan to deal with excessive government deficits and debt is undermining business confidence and leading CEOs to focus on balance sheet strength rather than investing for future growth. Low levels of economic growth also leave the global economy at greater risk of recession from unexpected shocks, such as a Middle East war which would drive oil prices higher or a natural disaster that would impede economic growth in an important region of the world. In the aftermath of the 2008 financial crisis, the global economy simply has lost its "mojo" and now needs a new vision of a more prosperous future in order to regain vibrancy. With policymakers constrained by politics, excessive government debt and the fact that interest rates cannot be lowered under 0%, it is hard to find the needed formula to get the capitalistic "animal spirits" that lead to growth restarted.

Unfortunately, this may prove hard to achieve in the short term. Muddling through the current period of weakness without another serious financial crisis may be the most we can hope for. In Europe, for example, the current approach remains one heavily influenced by austerity. At the recent European Summit, Italy, Spain and France managed to get Germany to lighten up a bit on its austerity push, but not by much. The European fiscal policy prescription remains essentially unchanged – provide fiscal bailouts only begrudgingly and at the last minute in order to force the beleaguered PIGS to make much-needed but painful adjustments in their overblown social spending. There is a risk, however, they act too late or fail to properly anticipate social unrest as these severe fiscal policies are implemented. The ECB's monetary policy, on the other hand, has been alternately stingy and highly accommodative, yet its language has focused on its reluctance to help. As this arduous process of adjustment continues, with ebbs and flows of relative influence moving between the ECB, Germany, the PIGS and the voters, recession rather than growth is the by-product. A European recession is now a virtual certainty in 2012, the only question is how deep it will go before forces demanding growth win concessions from those insisting upon fiscal restraint and no additional monetary accommodation. So far, the Europeans policymakers have always done just enough to avoid a financial system meltdown and we suspect this will continue to be the case. For investors, that may be all that is required to allow for worthwhile returns. For the average voter, however, this is a grueling process which could easily lead to upheavals in the status quo, as the votes in both France and Greece hinted at in May. Even so, no matter who is in office, they will face limited options. Europe is in such a deep hole that politicians are increasingly simply implementers of the financial markets' and bailout agencies' demands. Ideology sells well during electoral battles, but is worthless once a politician takes office under such a scenario. Given its deep banking and sovereign debt problems, it is hard to see Europe leading the world out of its current slow growth mode. We are hopeful Europe will not throw the world into another crisis, but this is still a very significant risk that cannot be ignored.

Chart 2

China's Inflation Rate Falling Quickly as Growth Slows
China's CPI YOY % Change



Source: Strategas, Bloomberg

The Chinese economy, however, offers a bit more hope of helping stimulate faster global economic growth. Chinese economic growth has clearly slowed from the double-digit pace it had previously maintained for years. How fast this decline in growth has actually been is still a matter of debate. Many observers believe that Chinese economic growth has come to a hard stop following a massive overbuilding of infrastructure in response to the 2008 financial crisis. Coal piling up at ports, sharp declines in auto sales, unfinished real estate projects, signs of stress in the banking system, slow growth in electricity usage and a collapse in oil prices are all indicators Chinese economic growth is less than the government is reporting. Stories of companies being asked by government officials to report overstated production numbers in order to falsely inflate Chinese economic growth have also been making the rounds. We have no doubt the Chinese response to the 2008 financial crisis was foolishly overdone and is largely responsible for the problems the country now faces. Still, we believe China likely has both the capacity and willingness to engage in further, hopefully more sensible, stimulus now. With inflation falling, the country has room to take more significant stimulus steps (Chart 2). Indeed, China has already made some adjustments to interest rates and other banking regulations in an initial effort to offset the recent weakness. At the same time, we have no expectation the Chinese authorities will seek to boost growth back to double-digit levels. Future Chinese stimulus steps may help stem the decline in global economic growth, but are not likely to lead the world into a period of more rapid recovery. And there remains a risk China's economic problems prove to be far deeper than anyone now realizes.

The US economy has also been decelerating lately from already subpar levels of economic growth. Yet it remains the best situated major economy and has the potential to lead the global economy out of its current morass. Unlike Europe, our banking sector has made great strides in recapitalization and it no longer is a serious threat to economic stability. The corporate sector of the economy is also well-positioned with strong liquidity, high profit margins and impressive balance sheet strength. Consumers continue to deleverage and have made good progress on this front since the crash. As a result, auto sales have turned higher and even the housing market is finally showing some signs of life (Chart 3). Despite the Obama administration's attempts to limit energy production in this country, reports are now suggesting new drilling technologies have the US heading in the direction of energy independence. Inflation is also trending lower and the recent sharp drop in oil prices is putting a significant amount of extra money in consumer's pockets. Lower inflation and possibly greater declines in inflation expectations may give the Federal Reserve the room it needs to start another Quantitative Easing (QE) or other accommodative monetary program to try to jump-start economic growth. While past QE programs have helped financial asset prices more so than the real economy, Fed Chairman Bernanke and other Fed officials have hinted about the potential need to do what they can to help get unemployment lower. Needless to say, the US economy still faces daunting issues, not the least of which is a foolish unwillingness of legislators to formulate a credible, affordable plan to address our long-term debt and deficit problems. We are hopeful this can finally be at least partially addressed in 2013 by a hopefully Republican-dominated government. If so, the US may indeed lead the global economy to a higher, healthier rate of economic growth in the years ahead.

Chart 3

The Housing Sector Appears to Have Hit Bottom and Is Now Beginning to Recover

Source: Wall Street Journal, Bloomberg, Federal Reserve Bank of St. Louis

US Economic Progress and Its Biggest Threats

"Be diligent in these matters… so that everyone may see your progress." 1 Timothy 4:15 (NIV)

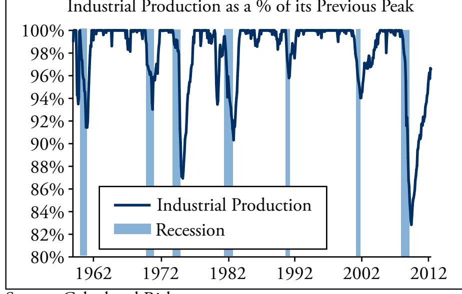
Sadly, human nature means reporting good news is rarely profitable for media companies and there never seems to be a shortage of negative news for the media to focus on. We recall the news reports as George Bush approached his re-election in 2004. Despite the fact inflation was minimal, unemployment was low and economic growth was strong, the press worked overtime to try to convince the American public the sky was falling. While we acknowledge Democratic presidential candidates get at least a partial pass on over-hyped negative economic reporting when election time rolls around, there is no avoiding the fact that negativity sells. Knowing how hopeless many investors feel at the moment, we thought it might be helpful to bring some balance to the situation.

We already have pointed out the housing sector is now adding to the nation's economic growth rather than detracting. In fact, virtually every economic indicator has improved substantially, if only slowly in the last few years. While employment trends have recently been weaker than hoped for, employment is still growing. Private measures of employment, such as ADP, have shown greater strength than the government statistics. Temporary help, a leading indicator of future jobs, has consistently improved, bankruptcies have fallen sharply and mortgage delinquencies have dropped considerably. Consumer debt ratios have declined and recent data point to consumers again being willing to take on a little more debt, an indication the pace of deleveraging may slow or even stop. Manufacturing has recovered nicely as well with industrial production exhibiting a significant rebound from its lows of a few years ago (Chart 4) and is now nearing its pre-crash high. This recovery apparently might be even stronger if companies could find enough qualified workers to fill empty skilled positions in their plants. Freight shipments via trains are also booming partly due to the improvement in manufacturing and also because of the growth in the energy sector. As noted earlier, shale oil and gas discoveries are putting the

Chart 4

US Manufacturing Sector Enjoying a Strong Rebound

Industrial Production as a % of its Previous Peak

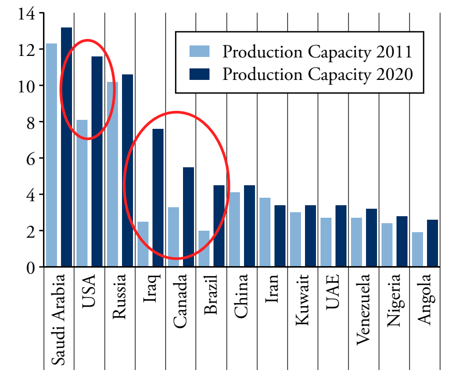


Source: Calculated Risk

Chart 5

Technological Gains Leading to
Strong Gains in Oil Production

Projected Improvement in Oil Production in 2020 by Country



Source: Oil - The Next Revolution by Leonardo Maugeri

idea of "peak oil" to rest as production climbs rapidly on private lands in the US. Additionally, this technology is now being implemented around the world. Coupled with continued progress in developing alternative energy supplies and further advances in energy efficiency, a promising a future of low-cost and abundant energy supplies is possible. Chart 5 highlights many of the largest expected boosts in future energy production are in nations friendly with the US (Brazil, Canada, perhaps Iraq) and in the US itself.

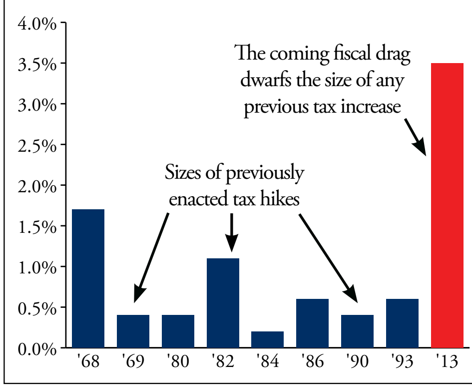
The US economy is getting better. It continues to move in the right direction, if only at a slow and recently decelerating pace. Needless to say, the improvement is just taking longer than desired and the recovery is hardly complete. While seeking to bring balance to the reporting about the US economy, we also do not want to overlook the very significant threats still present that could easily undo the progress seen thus far. While the press almost always fails to provide reasonable balance, the problems they report on are still very real. Moreover, some of these issues are very menacing and highly complex.

The most immediate threat to a continued US economic recovery is the so-called "fiscal cliff". This refers to the wide variety of spending cuts and tax increases already enacted into law which will hit the US economy on January 1, 2013. If these laws are not changed, the economy will fall over that "cliff" and a recession is almost assured to start immediately. Some worry the recent deceleration in US economic activity can be traced directly to the fear of this approaching fiscal cliff. Chart 6 shows the impact of the various elements of the fiscal cliff is more than twice the size of any previous tax hike since 1968. It is also significantly larger than any of the massive stimulus bills seen in recent years. Even if Congress and the president could agree to eliminate every aspect of the fiscal cliff and maintain the status quo, this would just leave the economy where it was in the first place – no drag on economic activity but also no stimulus either. Given the many tax increases and spending cuts contained in the fiscal cliff, investors worry it will be impossible to politically navigate all the separate issues, especially in an election year. Our expectation is the lame duck session of Congress will agree to essentially extend almost everything through the first part of 2013 so few of the tax increases or spending cuts take place until the new government is seated and can deal with this huge issue later. If President Obama is re-elected, however, that is not likely to happen. Even if he is not re-elected, there can be no guarantee that he will agree to let the next government handle every aspect of the fiscal cliff. And without his acquiescence, the economy could be in for rude awakening on January 1st.

Chart 6

Threat From the Fiscal Cliff is Much
Greater Than Previous Tax Hikes

Size of the Fiscal Cliff as a % of GNP

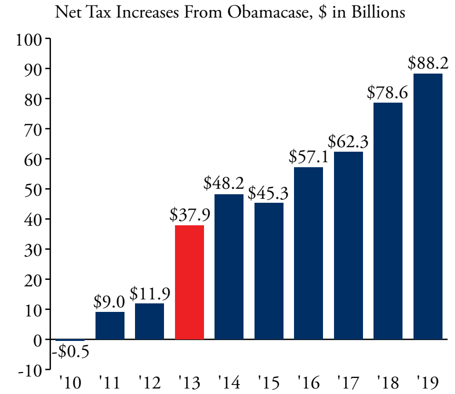


Source: Strategas

Chart 7

Obamacare Threatens Economy
by Adding Even More Taxes

Net Tax Increases From Obamacase, $ in Billions



Source: Strategas

The other significant threat to US prosperity is Obamacare. Conveniently starting just after the presidential election, taxes associated with this piece of legislation begin to jump significantly and continue to rise every year thereafter (Chart 7). They include a new 3.8% tax on investment income (coming on top of the big jump in investment income taxes as a result of the end of the Bush tax cuts) and an additional 0.9% payroll tax. Consumer spending will be negatively impacted and all corporations will be forced to review their dividend policies given the very unfavorable tax treatment dividends will face starting in 2013. Some may choose to cut dividends and dividend increases will certainly slow significantly. Obamacare is also likely to have many other negative impacts on the economy outside of these taxes. At this point, the only way this legislation can be repealed is for the Republicans to retain their hold on the House, gain control of the senate and win the presidency. Even then, it may prove difficult to repeal as some senators are RINOs - "Republican in name only" - and could side with the Democrats. Accordingly, while the economy is making progress, it would not be hard for it to be suddenly undermined come the turn of the year. This year's election's results will be a pivotal turning point for the market's perception of future economic growth.

Great Fear Almost Always Equates to Great Values

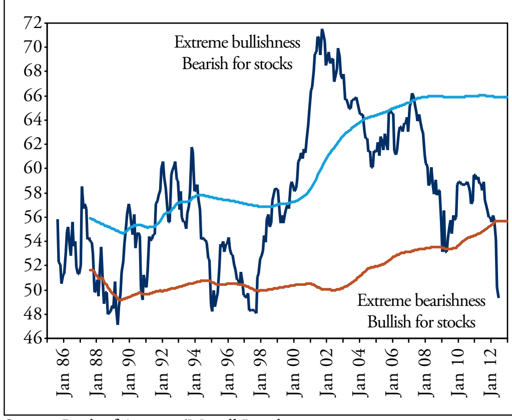
"When he found one of great value, he … sold everything he had and bought it." Matthew 13:46 (NIV)

Investors are naturally uncomfortable when the most important influence on future investment results resides with the actions of politicians. Such a scenario is a breeding ground for uncertainty. Even when investors know who the politicians are, trust is usually low. With the upcoming US election possibly changing the electoral landscape in unpredictable ways, it is hard to muster a lot of confidence all will turn out well. Moreover, European and Chinese politicians will also play a critical role in the coming year. Rising levels of investor insecurity and hopelessness, however, almost always create exceptional long-term investment opportunities in equities. Chart 8 portrays the current extreme bearishness of Wall Street research analysts. While there remain great risks that could ultimately justify this high degree of angst, more often the worst-case scenario is avoided, even when politicians are calling the shots. If this turns out to be true over the next year, share prices could rally meaningfully as fear recedes.

Chart 8

Wall Street Analysts Have Lost All Hope

Sell Side Consensus Sentiment Indicator

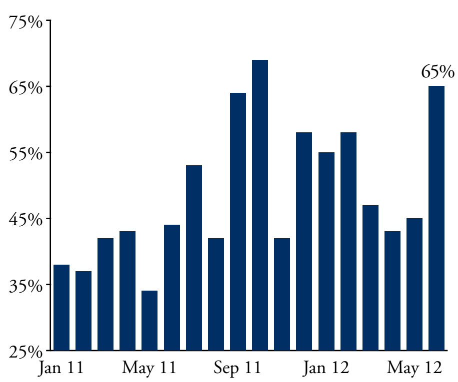


Source: Bank of America/Merrill Lynch

Chart 9

Analysts' Growing Fear Seen in EPS Estimates

Monthly Negative EPS Revisions as a % of Total



Source: Strategas

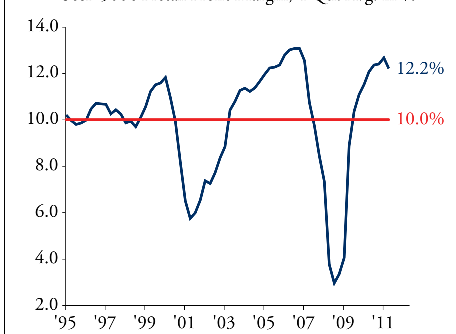
Analysts' fears are being reflected in their earnings forecasts (Chart 9). As the global growth slowdown has become increasingly apparent, analysts have been rushing to lower their earnings expectations. In June almost two out of every three earnings revisions were negative. Interestingly, even while the analysts were getting more negative, share prices were actually recovering in June. It is worth noting that the last time earnings revisions were this bad was in the September/October time period, which marked the most recent lows in the markets. It will be interesting to see how the analysts react to management guidance during the current earnings season. Thus far, we would not characterize the overall guidance trend as negative. Certainly, managements are cautious regarding their outlooks but few have slashed future earnings expectations.

While sales increases may be slowing in line with weaker global economic growth, for most companies revenues continue to grow. This should allow for profits to remain at attractive levels as well. While there has been a small amount of margin compression recently (Chart 10), margins are still well above the long term average, reflecting the continued excellent job corporate management teams have been doing in the midst of a volatile and uncertain business environment. If economic growth simply continues to "muddle through", profits can likely be maintained at above-average levels. Naturally, a severe drop in economic activity related to renewed banking or sovereign debt issues in Europe, a harder than expected landing in China, a political unwillingness to smooth the US's fiscal cliff or perhaps even a surprising destabilization in Japan's economic outlook, would inevitably hurt corporate profitability. Therefore, we will remain vigilant in monitoring these and other threats to profitability.

Chart 10

Profit Margins Remain High

S&P 500's Pretax Profit Margin, 4 Qtr. Avg. in %



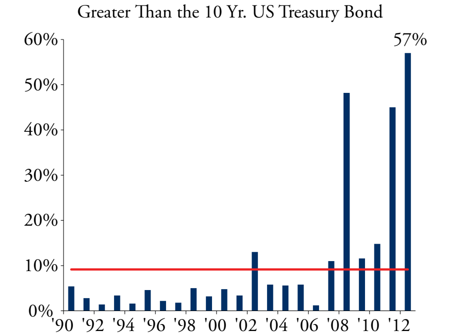
Source: Strategas

Chart 11

Need Yield? Look to Stocks!

% of S&P 500 With Yields

Greater Than the 10 Yr. US Treasury Bond



Source: Strategas

Fear and uncertainty inevitably create long-term value in share prices. Incredibly low yields on US Treasuries and even negative yields on some short-term European government bonds highlight the extent of investor concerns. As a result, 57% of the S&P 500 stocks now have dividend yields greater than the 10-year US Treasury yield (Chart 11). This remarkable statistic simultaneously reveals the overvaluation of bonds and the undervaluation of equities.

What Might Go Right?

"Let us discern for ourselves what is right; let us learn together what is good." Job 34:4 (NIV)

With bond and stock prices both reflecting considerable fear about the future, giving some thought to what might go right in the months ahead is a timely exercise. Given how well-known the risks are, the market likely has already largely discounted these. Should circumstances turn out even a bit more favorably than investors are currently assuming, therefore, share prices could advance meaningfully in the second half of 2012 and beyond. What developments might trigger such a rally?

First, the crisis in Europe may moderate. The European Summit at the end of June was the most promising of the roughly 20, mostly fruitless ones, held so far. While it is clear there remains an enormous amount of work yet to be done before Europe has exited this unfortunate stage of its financial history, it is possible the intensity and frequency of future problems may begin to diminish. With the recent bailout of the Spanish banks, assuming it will be effectively concluded in a timely fashion, it is possible future flare-ups will be of lesser consequence to the financial markets. Assuredly, new troubles will arise, but the greatest threat to the global financial system from Europe may already be behind us. Europe's economy will likely struggle for years to come as various countries and the banking system continue to grapple with debt, but we are gaining hope an uncontrolled systemic meltdown can be avoided. If the markets increasingly come to see this as true, share prices will benefit. We are hopeful increasingly aggressive ECB policy accommodation will be forthcoming to help offset the required fiscal austerity, thereby helping to spur a less crisis-filled trend along.

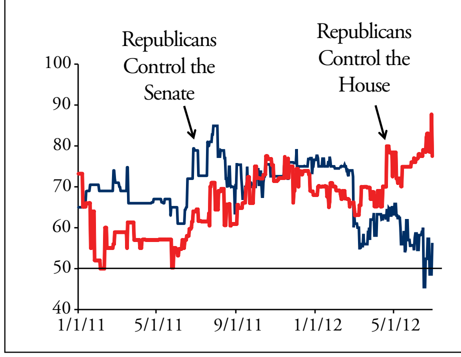
Second, China appears to have the wherewithal to counteract its economic moderation. Given the political season China is in (there is a leadership changeover occurring this year), there is even greater reason to expect policymakers to make every effort to avoid serious economic shortfalls. Again, actions have already been taken to help and we suspect more are on the way. Unlike in either Europe or the US, government officials react more quickly in China as a result of the absence of political dissent.

Many parts of the US economy are already well on their way to recovery and would not need any further government intervention to return to a place of self-sustaining growth. Unfortunately, the fiscal cliff and Obamacare might upend this improving situation. With little chance either issue gets properly dealt with prior to the November election, uncertainty around these subjects will haunt investors until the end of the year. We are confident the lame duck session of Congress will pass legislation to make sure the full impact of the fiscal cliff does not send the US economy into recession and that President Obama will sign it before year-end whether he is re-elected or not. So, this threat is likely to be greatly reduced and could turn out to be a significant positive for the market if sensible tax reform is taken up by the new Congress in 2013. Obamacare is a longer-term threat to the nation and the last chance to repeal it hinges on the November election. Republicans must win the House (a virtual lock), the Senate (likely, but not guaranteed - Chart 12) and the presidency (too close to call) for this to have a chance of being accomplished. Knowing these threats to economic growth exist, as well as because of the deflationary impact from slower global growth, Bernanke is likely going to pursue additional quantitative easing (QE) in the months ahead. QE could easily support the financial markets until the needed legislative fixes can be put in place in 2013.

Chart 12

Will Republicans Win the Senate?

Intrade Odds of Republicans Winning the House and Senate



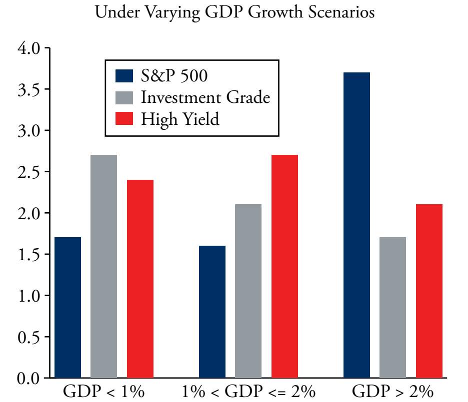
Source: Strategas

Clearly, the markets remain vulnerable to unexpected shocks to the global economy and poor execution by policymakers. The more favorable scenarios listed above are unlikely to develop exactly as described, if at all. Still, we believe the possibility exists more will go right in the months ahead than investors are now expecting. If so, we could well end 2012 with an improved economic outlook and much higher share prices. Ultimately, faster growth is the key to getting superior returns from equities (Chart 13). Growth may be harder than normal to come by in the near term but it is not impossible to achieve.

Chart 13

Faster Economic Growth Favors Equities Over Bonds

Avg. Quarterly Total Return Under Varying GDP Growth Scenarios



Source: Pragmatic Capitalism, Deutsche Bank

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.

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 during his decade of service with the Templeton organization. He also had the privilege of working directly with 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 which 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 *justice and mercy for the defenseless* so we seek to avoid companies involved in:**
   - Abortion
   - Life destroying or distorting scientific research
   - Human rights issues such as religious persecution, terrorism and political oppression

2. **We desire *justice and mercy for the poor* so we seek to avoid 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 *compassion for those addicted and/or engaged in sinful lifestyles* so we seek to avoid companies involved in:**
   - Alcohol, Gambling and Tobacco
   - Pornography
   - Homosexuality (those companies deemed to be the most active supporters)

4. **We desire to *protect marriage and the family* so we seek to avoid 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

We obtain 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 and utilize much of it to realize our goal of investing in a manner that most honors our Lord. Equipped with this information, we are then prepared to make as strong an effort as possible to build investment portfolios which best reflect our clients' biblically-based Christian worldview.

Like all people, all companies are sinners. Therefore, we attempt to use the BRI information at our disposal to eliminate the worst offenders from our portfolios. At times, this is easy. For example, a company involved in making drugs used in the abortion process will always be excluded from our portfolios. In many cases, however, we need to utilize judgment, such as when a company has operations in a country that is a known violator of human rights. The type and size of that exposure, among other considerations, are taken into account before eliminating the company from our portfolios. When judgments must be made we are guided by the principal of trying to do what we believe Jesus would do if He were making the decision.

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 exhibiting exemplary attributes, Chick-fil-A, and one we avoid, HSBC. Chick-fil-A is a private company so we cannot own it in our Stewardship Partners portfolios, while we actively avoid ownership in HSBC 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 – Chick-fil-A – Excellence, Christian Values and Generosity

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

Chick-fil-A was founded by Christian businessman Truett Cathy over 60 years ago in Atlanta, Georgia. The company's first restaurant was called the Dwarf House and its first Chick-fil-A restaurant opened in 1967. Now the company has over 1,600 Chick-fil-A locations in 39 states and the District of Columbia. Sales in 2011 surpassed $4 billion, and Chick-fil-A is one of the most successful fast food operators in the country. Sales have increased in each of the 44 years since the first Chick-fil-A restaurant opened. This high level of sales is achieved even though the company keeps its restaurants closed on Sundays in order to honor the Lord and allow employees to participate in Sunday worship services. This privately-held company is the second largest fast food chicken restaurant chain in the nation and is well known among consumers for its overall excellence, cleanliness and outstanding service. Many customers have noticed employees almost always respond with the phrase "my pleasure" when thanked for their good service. Inevitably, it actually seems they mean it as well, as Chick-fil-A employees appear to be among the most cheerful workers you will find, especially in a fast food restaurant!

Normally in this section, we feature a public company demonstrating biblically-based values which we hold in one of our Stewardship Partners portfolios. Since Chick-fil-A is a private company, we are not able to own Chick-fil-A's stock. Nevertheless, we felt compelled to highlight the company in light of it being in the news lately for its biblically-based stand on gay marriage and its support for Christian charities like Family Research Council and Fellowship of Christian Athletes who likewise take a pro-traditional marriage stand. Fox News initially reported on an interview Chick-fil-A president Dan Cathy gave to the Baptist Press. In the Fox News story, Cathy's comments to the Baptist Press were selectively edited to give a significantly different and more feel to the story. To those who had not seen the original comments by Cathy (link: http://www.bpnews.net/BPnews.asp?ID=38271), the Fox News story made him appear as a public relations fool. Basically, it appeared he was confused as he said Chick-fil-A was not a Christian company but also was quoted as saying it was run on biblical principles. Additionally, he appeared to be aggressively challenging those in favor of gay marriage. Both impressions bore little resemblance to reality. Once Fox reported on the story, other news outlets picked up on the story, and we suspect attacks on Chick-fil-A from liberal groups will increase significantly in the days and months ahead. Previously, the company was attacked simply for providing chicken sandwiches to a pro-family ministry meeting in Pennsylvania. In the Fox story, the leading pro-homosexual group, the Human Rights Campaign, harshly criticized Chick-fil-A for being out of sync with other companies and the country as a whole. After the story came out, the mayor of Boston stated he would do everything in his power to keep Chick-fil-A from opening restaurants in his city. Various colleges across the country have also said they will not allow a Chick-fil-A restaurant on their campuses because of its biblically-based stand against gay marriage. Chick-fil-A has already responded to this public relations disaster by stating, in part:

"The Chick-fil-A culture and service tradition in our restaurants is to treat every person with honor, dignity and respect – regardless of their belief, race, creed, sexual orientation or gender. We will continue this tradition in the over 1,600 restaurants run by independent Owner/Operators. ***Going forward, our intent is to leave the policy debate over same-sex marriage to the government and political arena.***

"Chick-fil-A is a family-owned and family-led company serving the communities in which it operates. ***From the day Truett Cathy started the company, he began applying biblically-based principles to managing his business. For example, we believe that closing on Sundays, operating debt-free and devoting a percentage of our profits back to our communities are what make us a stronger company and Chick-fil-A family.***

"Our mission is simple: to serve great food, provide genuine hospitality and have a positive influence on all who come in contact with Chick-fil-A."

Chick-fil-A's response of no longer getting involved in the policy debate over same-sex marriage is understandable. As a consumer company, it has no desire to become a lightning rod for liberal criticism and boycotts. Its franchisees were no doubt aghast when this story broke, particularly those located in areas of the country where Christianity is not very influential. At the same time, this reaction a huge disappointment to serious Bible-believing Christians who wish more companies would demonstrate the same willingness to stand up for their values as the hundreds of companies now actively supporting a wide variety of liberal causes. Sadly, Chick-fil-A's public retreat is really just a reflection of the church's unwillingness to take up its role to be "salt and light" in our culture and the fact that the culture war has been lost. Company management implicitly knows the church does not have its back in the battle to sanctify our culture and must react accordingly. Until Christian investors and consumers take their beliefs as seriously as does the left, companies like Chick-fil-A will have little choice but to back away from contentious issues.

The Bad – HSBC – Helping Evildoers

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

The world's largest banks have been admitting guilt and paying huge fines on what seems like an almost daily basis lately. JP Morgan revealed huge losses related to failed derivative trades and has been accused of illegally manipulating energy trading markets. Barclays Bank is the first of several banks that will pay huge fines for manipulating Libor. And another commodities broker has been found to have stolen over $200 million of it clients' funds. Now, HSBC has admitted to assisting money laundering from Cuba, North Korea and Iran. The most egregious case was the Iranian infractions which amounted to over 25,000 illegal transactions between 2001 and 2007. Moreover, HSBC actively counseled Iranian organizations on how they might circumvent American efforts to prevent such transactions. It is hard to conceive how this could be the case. Is it any wonder Americans' trust in large financial institutions is so abysmally low given the frequency and severity of their law-breaking and greedy behavior? These actions are simply indefensible and many fear what has been revealed so far is just the tip of an iceberg of bad bank behavior. Recently, former FDIC Chairwoman Shelia Bair penned the following comments:

"The Dodd-Frank Wall Street Reform Act, the landmark law enacted on July 21, 2010, was designed to end the kind of risk taking, greed, and avarice that brought us the financial crisis of 2008. Yet, notwithstanding thousands of pages of proposed and final rules to implement this important law, nothing much seems to have changed. The prospect of a quick buck too often trumps any notion of ethical behavior or gosh-forbid, long-term business relationships. Traders still feel they are masters of the universe, misappropriating customer funds, making outsized bets in the derivatives markets and fixing interest rates. Some of them apparently think that laws are made to be broken if they can improve their year-end bonuses. But after all, wasn't that the lesson learned from the hand slaps they received for the subprime mess?"

Excluding HSBC 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. Please feel free to utilize this free resource as you seek to be a wise and effective donor to Christian ministries. We would be pleased to be able to help you bless God's people who are in need. Please be sure to check out MinistryWatch.com's 2011 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 – Village Missions

"So they set out and went from village to village, preaching the gospel." Luke 9:6 (NIV)

Village Missions is a relatively small ministry (annual revenues of $5 million) which seeks to provide rural churches in North America with pastors they cannot afford themselves. Founded in 1948 by several women involved in another ministry who noticed the large number of closed rural churches as they travelled the country, Village Missions now provides pastors to hundreds of churches in small communities throughout the US and Canada. The missionaries serve for as long as the Lord leads them to remain and seek to involve the entire community in their work. In addition to regular worship services, the missionaries are encouraged to conduct Bible studies, make home visitations, conduct student and adult activities, hold vacation Bible schools and offer Sunday schools as well. The missionaries take a non-denominational approach in order to serve as many as possible without being limited by such labels.

Village Missions was ably led by Rev. Warren Duff, Jr. for 45 years whose simple admonition to his missionaries was to "preach the Word and love the people". As the ministry grew under his leadership, regional directors were added to the staff who would visit with missionaries, search out potential sites needing pastoral help and visit with prospective missionaries in seminaries and Bible schools. The ministry is now led by Rev. Brian Wechsler who began his career with Village missions in 1983 as a missionary to a local church. Village Missions is quick to point out that North America is currently the only continent where Christianity is not growing. While only a small ministry, Village Missions ably does its parts to reverse that unfortunate trend.

Village Missions is a very worthy ministry which is serving in remote places that would otherwise go without pastoral care. Additionally, the ministry effectively utilizes the financial resources donors entrust to it as reflected by the Four Star Financial Efficiency Rating earned from MinistryWatch.com. Village Missions is also a 2011 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 – Excellence in Giving

"Each man should give what he has decided in his heart to give, not reluctantly or under compulsion, for God loves a cheerful giver." 2 Corinthians 9:7 (NIV)

One element that has long been missing from the Christian Ministry Marketplace has been the aid and counsel that qualified, experienced advisors can bring to a giving decision. Due to the absence of such guidance, many well-intentioned donors have made giving decisions that proved to be less than optimal. **Excellence in Giving (EIG) seeks to fill that gap and thereby bring forth more resources for the Lord's work.** Founded by Wall Street veteran Al Mueller, EIG is one of a group of new philanthropic advisors that seek to transform the burden of wealth into the joy of generosity for major donors. The goal of the firm is to maximize the value and satisfaction of their clients' charitable giving. This is accomplished through a four-step process:

1. ***Discovery*** - EIG explores the issues their clients care most about, the values that they want to pass on to their children and the legacy that they would like to be remembered for.
2. ***Evaluation*** - EIG reviews their clients' current giving and produces an impact and satisfaction assessment. Analysis of new opportunities combined with the establishment of giving guidelines and initiation of a due diligence process are part of a course of action that leads to a Giving Game Plan.
3. ***Participation*** – EIG works with its network of contacts to identify the best opportunities, manages every aspect of the giving process from project evaluation, negotiation of grant terms and outcome measurements and seeks to partner with others, where appropriate, to leverage clients' gifts.
4. ***Celebration*** – EIG provides both a quantitative and qualitative review of the giving process and the positive results achieved are celebrated.

EIG also offers access to a database of information on a variety of charities. This information can be found at www.IntelligentPhilanthropy.com, and for a small charge, donors can gain obtain a two-page report that is certain to enhance the quality of their giving.

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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