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The Markets Stumbled Through the Minefield in the Third Quarter

"Did they stumble so as to fall beyond recovery? Not at all!" Romans 11:11 (NIV)

Over the last year, we have labeled the many significant problems the global economy faces as "landmines". We were frankly amazed at the financial markets' ability to avoid setting off these landmines from late last year until the middle of 2011. In an age where high frequency trading and short-term oriented hedge funds dominate the markets, the historic ability of share prices to adequately discount future risks seems to have been diminished considerably. During the third quarter, however, the obvious could no longer be ignored as investors began to stumble through the minefield, and the results were not pretty. Table 1 highlights how share prices fell steeply around the world as investors rather belatedly began to recognize the explosive power of the landmines they were now tripping over. While US stocks performed better than overseas shares, Chart 1 indicates the decline was still quite fast and steep. During the third quarter the US market actually gave up all the gains it had achieved since October of 2010. In fact, that feat was pretty much accomplished just in the month of August! Fortunately, most Stewardship Partners portfolios were able to avoid a good portion of the carnage as we had positioned our portfolios cautiously. Even so, many of our stocks suffered late in the quarter as hedge funds evidently sold them heavily due to margin calls and anticipated client redemptions. Many of these companies reported no negative news and are high quality companies with fortress balance sheets. We believe these stocks simply fell harder than one might reasonably expect due to the forced selling from hedge funds. We saw this same phenomenon in 2008. The inevitable big rebound from these unwarranted levels contributed to our very strong performance in 2009.

Chart 1

S&P 500 Eliminates Previous 9 Months of Gains in 3Q

Source: Strategas

Table 1

3Q11 Total Returns

US Indices	3Q11	YTD
S&P 500	-13.87%	-8.68%
S&P 500 Value	-16.30%	-11.92%
S&P 500 Growth	-11.56%	-5.56%
NASDAQ* (price only)	-12.91%	-8.95%
S&P 400 (Mid Cap)	-19.88%	-13.02%
S&P 600 (Small Cap)	-19.83%	-13.79%
Treasury Bonds	6.36%	8.80%
High Grade Corp. Bonds	2.26%	5.63%
Gold	8.24%	14.30%
Global & International Indices		
MSCI World	-17.06%	-13.75%
MSCI EAFE	-19.60%	-17.18%
MSCI Euro	-28.38%	-21.07%
MSCI Far East	-9.64%	-14.26%
MSCI Japan	-7.31%	-12.68%
US Economic Sectors		
Energy	-13.53%	-21.47%
Materials	-16.92%	-25.08%
Industrials	-10.07%	-22.11%
Consumer Discretionary	-7.58%	-14.73%
Consumer Staples	-3.53%	-4.46%
Health Care	-4.81%	-11.55%
Financials	-11.37%	-22.01%
Information Technology	-4.09%	-10.37%
Telecom	-2.51%	9.37%
Utilities	-0.64%	0.11%

Source: Standard & Poors, MSCI, Bloomberg

While hedge funds can certainly pollute the performance of individual stocks and entire markets in the short term, reality always wins out in the long term. Aided by the liquidity supplied to the financial markets by the Fed's QE 2 policy, hedge funds pushed share prices sharply higher from September 2010 until February 2011, despite growing economic threats. Share prices then held relatively steady until June, when QE 2 finally ended. Now lacking the support of the Fed's liquidity pump to obscure the significant risks from the landmines we have highlighted, investors turned negative on the market. While a heated debate over raising the debt ceiling in the US and S&P's downgrade of US debt stoked investor fears, the principal cause of the decline was the risk of a systemic financial collapse in Europe. European authorities have been unable to keep the sovereign debt and banking solvency problems that arose in Greece two years ago from spreading to more critical countries like Spain and Italy. As we write this commentary, Europe is still struggling to contain this crisis. If it fails to do so, further market declines are almost certain. If it succeeds, we would expect the markets to enjoy at least a brief relief rally since a huge crisis would have been averted. Prudence dictates a cautious approach.

Due to our guarded portfolio structuring, almost all Stewardship Partners portfolios out-performed the relevant indices in the third quarter, many by a significant amount. Our tactical portfolios performed best aided by the use of hedges. Still, we had hoped to do even better, but the unusual selling in some of our best holdings, noted above, held back our results.

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Are Risks from the Economic Landmines Growing or Receding?

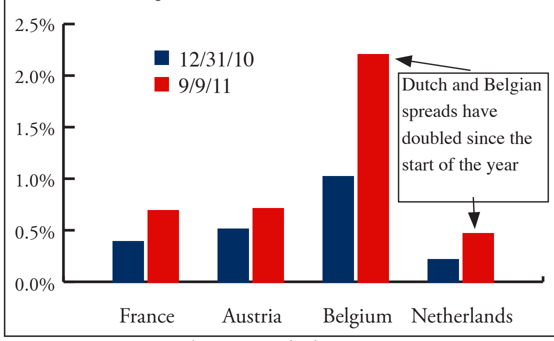
"they are worse off at the end than they were at the beginning." 2 Peter 2:20b (NIV)

In our view, the risk of a potentially calamitous outcome for investors has been growing steadily over the past year, due primarily to biggest landmine of them all - Europe. Europe's continuously inept attempts at resolving its sovereign debt and banking crises are threatening the world with a rerun of 2008's systemic financial collapse. Starting with the inability to overcome the relatively minor problem of the effective bankruptcy of Greece, subsequent inadequate responses by European policymakers allowed the crisis to blow up into a major global issue and engulf larger European countries like Spain, Italy and even France. Chart 2 highlights the rising risk in Europe's core. With the rest of the world now literally screaming for Europe to finally assemble a credible package to halt the contagion, the resolution of this crisis still remains in doubt. To date, the markets have received only vague assurances from European authorities that a credible solution will be forthcoming by early November. Unfortunately, it is difficult to project just what the latest solution will be. Given the complexity, size and cost of resolving this crisis (some estimate Europe will need more than $2 trillion to properly backstop all the banks and nations facing solvency concerns), it is not surprising it is taking so long to craft a plan that will effectively overcome it. It is never easy to determine which entities will be forced to take substantial losses. The inevitable bickering among the many governments, global institutions (such as the IMF and ECB) and banks facing these huge costs naturally delays negotiations as each party tries to finds a good reason why they should not pay and someone else should. This inability to agree on how to apportion these huge costs is the main reason why Europe has been unable to head this problem off at the pass so far. These unfortunate delays, however, only mean there are now even larger costs to bear. With still not even broad outlines of a suitable recovery plan visible, Europe remains the flashpoint for a potential systemic event that would almost certainly have negative ramifications for economies well beyond Europe.

Chart 2

Credit Risk Now Rising in Central European Countries

Spreads Vs. 10 Year German Bonds

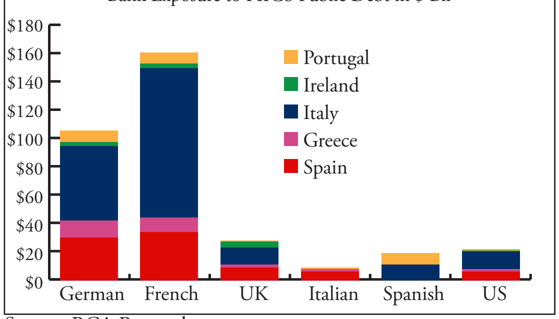


Source: Citi Invst. Research, Eurostat, Absolute Return Letter

Chart 3

German & French Banks Most Exposed to PIIGS Debt

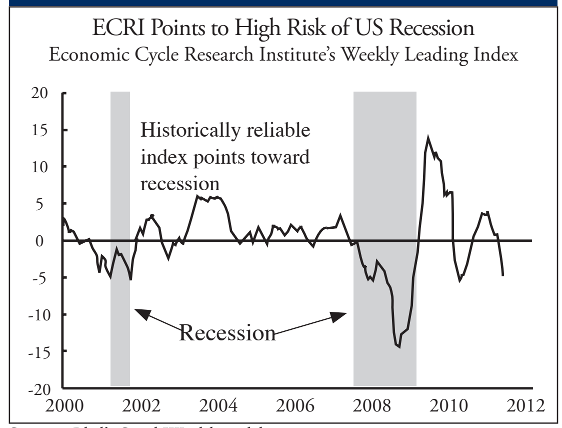
Bank Exposure to PIIGS Public Debt in $ Bil



Source: BCA Research

Despite the enormous risk of yet another failure to finally rectify Europe's solvency issues, the financial markets have rebounded significantly early in the fourth quarter. Investors, or perhaps better stated, speculators are assuming the Europeans will ultimately produce a program which will stem the contagion even though a coherent plan to achieve this has yet to coalesce. The reasoning is apparently that it is unfathomable such a plan will not be put forward. Furthermore, some positive steps have been made. In particular, the expansion of the European Financial Stability Facility (EFSF), Europe's version of TARP, certainly gives policymakers desperately needed financial resources to confront its problems; although most argue the over $600 billion in this fund is still insufficient. More prudent observers of these developments, however, are taking a more cautionary approach. While acknowledging the European Union's (EU) increased efforts to put an end to the crisis, skeptics believe it will be difficult, if not impossible, to formulate a cost-free way out of this mess. The market's recent rebound, however, indicates a belief that any costs will be either sufficiently distant or concentrated in the public sector, such that public companies will not be soon impacted. More prudent observers view this as naïve. Banks in particular almost certainly will be negatively impacted by bad sovereign debts (Chart 3), possibly leading to significant dilution for shareholders, credit constraints and weak long term economic growth. Debt ratings on both European banks and nations have already been cut and further downgrades are possible once the bailout costs are factored in. Moreover, faced with the still not insignificant possibility of a failure to achieve any plan the market views as credible, we remain in the camp of those believing it is better to be safe than sorry. There will certainly be many devils in the details of the plan the Europeans eventually adopt. While we acknowledge the Europeans may finally get things right, we would not put the chances of this at greater than 50% at this time. Given the substantial market declines that would ensue if the markets reject Europe's recovery efforts, we believe wisdom dictates remaining cautious until such time as enough evidence accumulates to suggest a lasting, market-friendly solution can be formulated. We will soon know if the European landmine has been defused or if we will feel its full explosive force.

Chart 4



Source: Phil's StockWorld & dshorts.com

The European landmine may be the most significant threat to the global financial markets right now, but it is hardly the only one. Other landmines we have identified have also become more hazardous. The Japanese debt and deficit problems, for example, remain unresolved. The longer the Japanese authorities let this situation fester, the bigger the ultimate cost will be for restoring fiscal order to its government finances. The Chinese landmine threat also advanced in recent months. Signs of financial stress have accelerated as Chinese authorities tightened financial conditions for banks in an effort to quell inflation that has risen above 6%. Chinese interbank lending rates have moved higher, real estate prices may have finally peaked at abnormally high levels, some businesses reported experiencing difficulties in collecting on trade debts, luxury car manufacturers are now offering significant discounts and export growth has slowed materially. It is also reported the Chinese shadow banking system is in turmoil as debts are going unpaid, businessmen who owe money are disappearing and some have committed suicide because they cannot pay their bills. It is always difficult to know if the official Chinese economic statistics are completely accurate, but it is clear the Chinese economy is slowing. Declining oil and copper prices are perhaps the best indication of a Chinese slowdown. With developed world economic growth at negligible levels at the moment, Chinese exports will struggle to maintain past high growth rates. Activity at US West Coast ports have fallen markedly in recent months thereby highlighting weaker export demand for Chinese goods. China's substantial balance sheet strength should help it contend with these issues by allowing it to bail out its banking system as it has in the past and by promoting growth in domestic demand. Nevertheless, the full scope of China's economic problems are not yet known nor is the impact on the rest of the global economy.

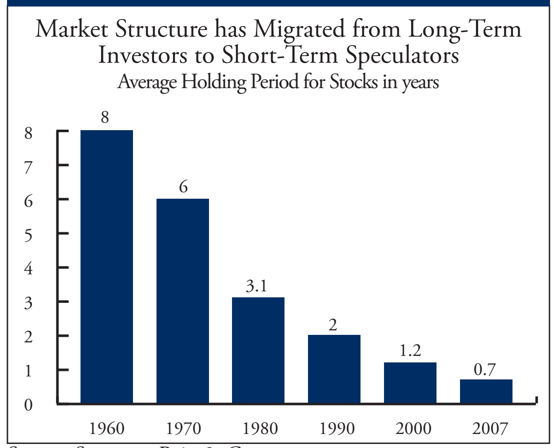
On a more positive note, the threat of recession in the US may be diminishing. Recent economic statistics portray a slowly growing economy rather than one that is stumbling into another recession. Lower oil prices have helped consumer spending, but the US economy still remains at risk of faltering again. The reliable ECRI indicator (Chart 4) continues to signal a high likelihood of recession. Moreover, US corporate profit margins look likely to fall from the current high level as economic growth slows globally and the recent strength of the dollar erodes foreign profits. On balance, it appears the landmines continue to be a growing rather than receding threat. A successful resolution to the European issue, however, would likely lead to improvement on all the other threats as well.

Are the Increasingly Unjust Financial Markets Yet Another Landmine?

"their hearts are greedy for unjust gain." Ezekiel 33:31b (NIV)

The "Occupy Wall Street" protesters are more than a bit confused in their messaging and revolting in some of their actions, but we can understand at least one aspect of their criticisms. Their complaint that Wall Street is abusing its considerable power to suck the life blood out of middle-class America, unlike their other grievances, is not far off the mark. While these far left protesters may be loath to acknowledge the connection, due to their support for Democrats, Wall Street's cozy relationship with regulators and politicians in Washington, DC has proven to be quite a profitable arrangement for both. One protester's sign, seen to the right, read "Why not a maximum wage?" While we disagree with this notion, the protester has a point as more than twenty-five hedge fund managers are reported to have personally made in excess of $1 billion in compensation last year. This was then taxed at the low 15% capital gains tax rate due to special regulations hedge funds were able to get enacted for their benefit. Further, the fact that several large banks also made sizable trading profits on each and every day during several quarters in recent years also highlights average investors are participating in at least a partially rigged game. It simply is not possible to achieve such unusually outstanding results as these in a marketplace where all participants are treated fairly. Clearly, too much power in the market now resides with too few, leaving the market at least partially broken. Naturally, we do not begrudge anyone getting appropriately rewarded for their efforts as long as the system treats all investors fairly – this is the essence of capitalism. But this is clearly no longer the case. Capitalism has been distorted, at least at the level of the financial markets. We doubt the protests will be a success, but we hope efforts will soon be made to reverse the decline of the financial markets into a casino primarily benefitting only a relatively small number of firms. The financial markets are the engine of capitalism. If compromised, capitalism will cease to be the most effective wealth creating system the world has ever known. Worse yet, the protests may eventually grow larger, louder and more violent. In such a scenario, chances are the distortions would not be corrected. Instead, capitalism could be further undermined by a backlash of well-intentioned yet foolish efforts to "fix" the problem.

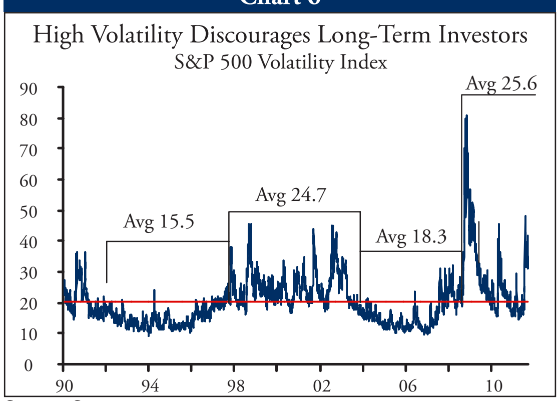
Chart 5



Source: Strategas, Bain & Co

Even if we were to assume the financial markets remain fair to all investors, the structure of the market has changed dramatically over the years. Technology and financial innovation, developments we normally celebrate, have instead had a deleterious impact on the financial markets. As computers were increasingly deployed in the financial markets, it became easier and cheaper to trade. Chart 5 portrays how the average holding period for stocks declined over the decades as computerized trading became more prevalent. With computers becoming increasingly powerful and programs more robust, short term trading strategies and speculation moved from being a just small part of daily market activity to dominating it. The most recent manifestation of this trend has been the dramatic rise of high frequency trading (HFT). HFT utilizes powerful computers running complex trading algorithms to complete thousands of trades in fractions of a second. The objective of HFT, which some claim now accounts for 70% of all trading, is not to invest in companies expected to grow at an above average rate or which pay attractive dividends, but rather is simply to profit from anomalies in bid and ask spreads. HFTs do not even have an opinion on the value of the company they are trading and do not even need to know what the company produces. HFTs' motivation is not to holistically participate in the wealth creating capitalistic process, but rather to game the system to extract whatever wealth they can from others in the marketplace. HFT is essentially a leech sucking the life blood from other investors in such small amounts that they never notice. This is a practice which needs to be ended.

Chart 6

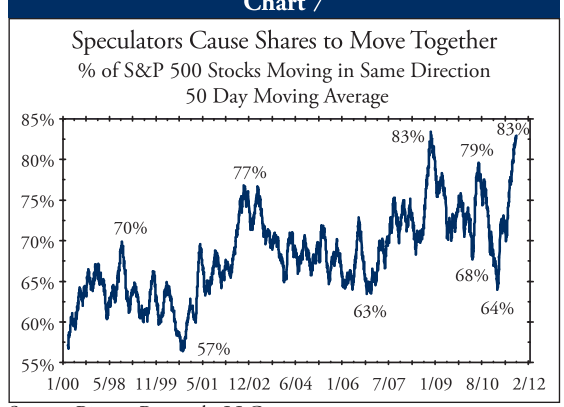


Source: Strategas

Adherents of HFT claim it enhances market liquidity. While a technical argument can certainly be made for this, we wonder if true liquidity is being reduced as long term investors are either exiting the market or attempting to become short term traders themselves in a hopeless effort to compete with the much more powerful computer trading systems. Many advisors we work with at Stewardship Partners increasingly moving to short term trading strategies and derivative based investments. Technical analysis, once a backwater for oddball investors, has also become more popular due to the growing short term focus of investors. We strongly suspect these efforts will prove unsatisfactory and will eventually be abandoned. Many investors now care only about today's news and ignore relevant future concerns, leading to strange share price behavior. Another consequence of the increasingly short term orientation of investors has been increased volatility as seen in Chart 6. These higher levels of volatility are clearly discouraging to many long term investors who have tired of the incessant tossing and turning of the markets.

Another ramification of these trends is the increasing correlation of stock prices. Chart 7 highlights the rising trend of share prices all moving in the same direction at the same time over the last fifteen years as hedge funds and HFTs began to dominate the markets. Investing for many no longer involves careful analysis of a company's prospects. Instead, investing has been reduced to what is known as "risk on, risk off". Computer programs look at a few macro indicators and either buy or sell aggressively a broad basket of stocks based on the signal given. Such simplistic trading activity creates excessive volatility and is slowly eroding the integrity of the markets. Long term investors can still win - a stock's true value is eventually reflected in its stock price - but patience is required as stock prices now frequently ignore company fundamentals as they are driven by waves of HFT buying or selling. While this is quite aggravating, stocks eventually gravitate toward a more justifiable price that better reflects the company's long term value.

Chart 7

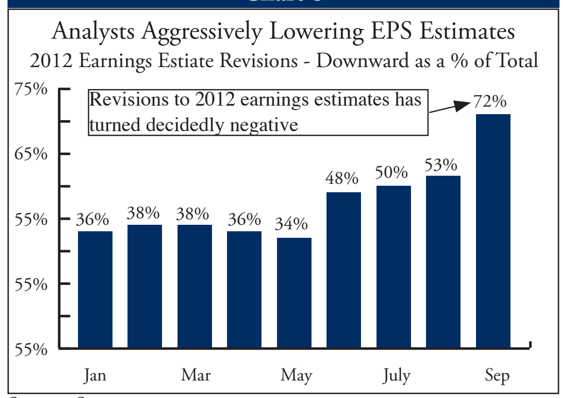


Source: Bianco Research, LLC

Are Earnings the Next Landmine to Explode?

"The prudent see danger and take refuge" Proverbs 27:12a (NIV)

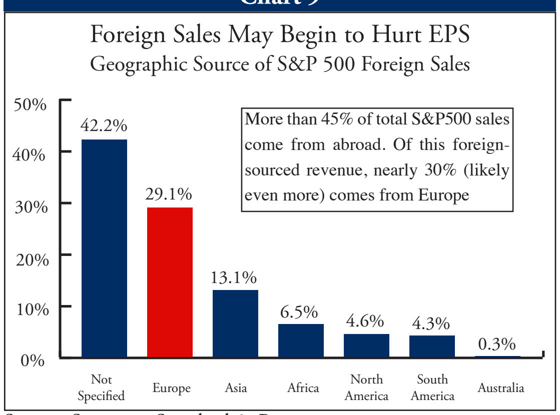
Chart 8



Source: Strategas

Despite the irritating, market distorting activities of short-term focused speculators, share prices ultimately will reflect corporate earnings power and the prospect for growth in profits over the longer term. The question now facing investors is what will earnings be, both in the short term and over the longer term. As we embark on the third quarter earnings season, earnings are expected to reach a new high of over $94 annualized for the S&P 500, exceeding the previous high reached in 2007. Corporate profit margins are near historic high levels and, as the thousands of Wall Street protesters around the country and the world sense in their gut, labors share of corporate expenses is at an all-time low. While earnings have been the one saving grace for the market in the last year, it is possible profits have peaked in the third quarter. In the short run, earnings will be under pressure due to several factors. Recessions in Japan as well as much, if not all, of Europe will limit revenue growth and pinch profit margins. Sluggish growth in the US is probably the best that can be hoped for at the moment and the risk of a renewed recession remains possible. Even China's economy now appears to be slowing and a variety of emerging markets have started to ease monetary policy in the face of slower growth. In response to these developments, analysts have certainly cooled their earnings expectations as indicated in Chart 8. When analysts' earnings revisions are running negative like this, it is hard for the market to mount a sustained advance. Moreover, longer term earnings growth may be pressured by labor recapturing a more normal share of corporate profits and government taking a bigger bite out earnings than in the recent past. As the only "rich" entity left in the economy at this time, corporations have a target on their back as both labor and government seek to "redistribute" what they view as excess corporate profits.

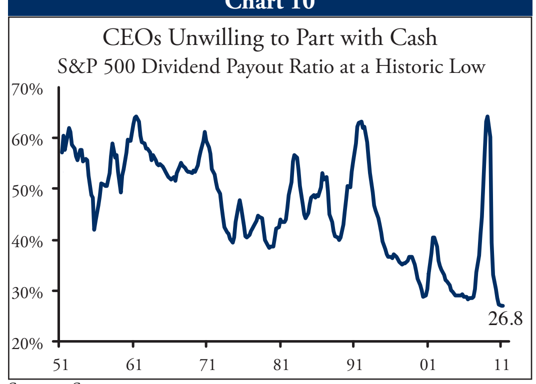
Chart 9



Source: Strategas, Standard & Poors

In the short term, however, US corporate earnings may begin to suffer from that which protected them over the last few years, foreign revenues. The S&P 500 currently gets almost half of its sales from abroad (Chart 9). The profits generated overseas have helped US corporations sustain their earnings in recent years as the weaker US dollar provided an earnings boost. As the dollar fell, overseas income translated into more US dollars and supported overall earnings. The cheaper dollar also allowed US companies to be more competitive in foreign markets thereby leading to higher sales. While the dollar weakened in October, it has had bursts of strength as the Euro has weakened. Additionally, recessionary conditions in most of the developed world combined with slowing growth in the emerging markets will further pressure foreign-sourced profits. We suspect about half of US corporations' foreign profits come from especially beleaguered Europe. CEOs have managed their affairs much better than either government or consumers in recent years, but it will be difficult for them to avoid lower sales growth and falling margins when half of their business is facing both significant revenue and currency pressure while the remaining business is growing slowly at best.

Chart 10



Source: Strategas

With CEOs facing threats to their companies' financial well-being from regulators, labor, possibly increased taxes (the government is hunting for money and the corporate sector has it) and weak global economic conditions, they continue to carefully manage their finances. Cash on corporate balance sheets is at an all-time high and CEOs are choosing to hold onto their current high profits versus paying out dividends to yield starved shareholders (Chart 10). In view of the uncertainty ahead, no one should blame them for continuing to manage their affairs as carefully as possible. We suspect the corporate sector will take a few hits in the next year, but will still be able to maintain its financial strength. As the world's economic problems get resolved, however, CEOs confidence in the future will grow. When this occurs, higher dividend payments can be expected and share prices should benefit.

Binary Events and Other Challenges for Wise Investors

"The wisdom of the prudent is to give thought to their ways" Proverbs 14:8a (NIV)

Given the many economic landmines confronting prudent investors and the constraints of investing in markets now dominated by short term traders who lack moral clarity and, often it seems, common sense, how can Christians be wise stewards of the assets the Lord has put under their care at times like these?

At the moment, investors are confronted with a very difficult call. If European politicians are able to meet the enormous challenge of injecting hundreds of billions into its capital starved banks, escorting Greece through bankruptcy without setting off other sovereign solvency bombs and finding a way to reverse the contagion that is now impacting Italy, Spain and even France, all while trying to promote growth and simultaneously encouraging austerity, the markets will continue to rally higher. While the time to pull off these herculean feats is very short, if it is accomplished – or if the markets can see a credible plan put in place that will eventually accomplish these reforms – a relief rally in share prices could be substantial. Indeed, it has already started based simply on flimsy rumors such solutions will be forthcoming. On the other hand, if these tasks prove too difficult achieve, particularly in the very short window available to attain these lofty goals, an uncontrolled systemic failure of Europe's financial system could quickly follow. Such a debacle would most assuredly impact the whole global economy and the markets would certainly fall very hard. It may be overstating the situation to say that this is a binary event – either all good or all bad results with not much hope for a partial solution – but this is essentially what investors face over the next few weeks. There is not much scope for a muddling through approach from Europe.

Faced with such a binary situation, we believe it is wiser to remain cautiously positioned. For most, pain associated with big losses is greater than the pleasure from large gains. Furthermore, ECB President Trichet recently stated a systemic crisis is already upon Europe, a statement the markets ignore to their peril. With the stakes so enormous, however, it is possible to envision even normally obtuse European politicians reaching a grand bargain that staves off disaster just in the nick of time. Having examined all the possible solutions proposed thus far, however, it is hard to overlook the significant costs likely to be associated with any such bargain. We are concerned the market is not completely factoring in how all the bad debts, perhaps greater than $1 trillion, will be accounted for. Even if Europe is able to pull the proverbial rabbit out of the hat, it may find the bunny is a nasty one that keeps biting its handlers! There simply is no easy, cost-free solution to Europe's solvency problems.

Once the European pressure cooker is dealt with, investors may quickly turn their eyes towards the deteriorating economic and banking conditions in China. China's strong balance sheet should allow it to avoid a disastrous outcome, but that does not mean it will not suffer through a serious economic adjustment that would impact important aspects of the global economy, notably commodities. While quite troubling, China's problems do not yet have the systemic failure element that Europe's challenges do. Still, we worry about the lack of transparency in China. Its problems could turn out to be far worse than anyone realizes. Again, wisdom dictates caution.

Like their European counterparts, US politicians also have an opportunity to solve, or at least start to solve, a huge problem facing the nation. The bipartisan group of twelve Congressmen seeking to find compromises over cost reductions and tax increases needed to make a substantial dent in the US fiscal deficit must report their results just before Thanksgiving. We suspect they will be able to produce a plan which will prove unsatisfactory to just about everyone but the stock market. The market simply wants to see significant concrete steps being taken towards fiscal sanity. But, like Europe, it will come at a cost if not structured cleverly. Tax increases in 2012 or 2013 could push the US economy towards recession. This too is something of a minor binary event for investors. Success could yield positive returns, but failure would be a problem for the markets. In this case, however, we believe the process is biased towards success, at least in the eyes of investors.

While we think it best to remain cautiously positioned until we have greater clarity about the outcome in Europe, we recognize our conservative approach may cost us lost performance. If Europe does enough to avoid a systemic crisis when they finalize their plans in early November and the US debt and deficit commission follows that up with a favorable outcome to those negotiations, share prices could have a big run. China's difficulties might be temporarily ignored if both binary events produce favorable results. On the other hand, if Europe fails to come up with a credible plan that does not place too great a burden on the private sector or undermine economic growth – quite a difficult assignment – share prices will collapse. All things considered, we believe the most sensible strategy is to remain cautiously positioned, but be prepared to quickly reverse course as required.

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 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 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 that exhibits exemplary attributes, Duke Energy, and one we avoid, JP Morgan Chase. We own Duke Energy in some Stewardship Partners portfolios while we actively avoid ownership in JP Morgan Chase 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 – Duke Energy – Integrity, Sustainability and Charity

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

Duke Energy is one of the largest power companies in the United States. Headquartered in Stewardship Partners' hometown of Charlotte, NC, Duke serves roughly 4 million customers from its 35,000 megawatts of electrical generating capacity. The company also has natural gas distribution operations, a portfolio of clean energy assets as well as facilities in Latin America. Duke Energy was started in the early 1900s by three gentlemen looking to help the Carolinas diversify away from its historic reliance on agriculture. Their first generating plant was a hydroelectric facility but coal fired operations and, eventually, nuclear plants also were also added to the company's business mix as rapid economic development in the south required the company to expand rapidly. In 2006, the company merged with Cinergy thereby expanding its geographical footprint into Ohio, Kentucky and Indiana. The company's growth continues to be strong and innovation has always been a key component of the Duke Energy's success. Duke will be the sole consumer of one of the nation's largest solar facilities located north of Charlotte and is building two new clean coal facilities. Duke is also a leader in the usage of smart grid technology and the company considers efficiency gains to be one of the primary sources of new energy it needs to exploit. The company has consistently been included as part of the Dow Jones World Sustainability Index and has been named as one of the 100 top corporate citizens by Corporate Responsibility magazine. Duke Energy has long been one of the most creative, responsible and admired companies in the US.

Duke Energy's Mission and Values statements, not surprisingly, are supportive of the company's strong reputation. Duke's Mission Statement says, " At Duke Energy, we make people's lives better by providing gas and electric services in a sustainable way — affordable, reliable and clean. This requires us to constantly look for ways to improve, to grow and to reduce our impact on the environment." All the sentiments indicated in this Mission Statement reflect just the kind of company Stewardship Partners is looking to invest in. Additionally, Duke's values are also impressive. Safety tops the list, something that is especially important for an operator of nuclear facilities. Next is "Caring" where the company strives to make the communities it serves better places to live and work. "Integrity" is the next value where the company states it does the right thing, honors its commitments and admits when it is wrong. "Openness" is how the company describes its willingness to be open to change by listening to all of its stakeholders as it strives to get better. "Passion" describes the company's efforts to seek excellence and its willingness to take accountability for its actions. Finally, “Respect” highlights how the company values diverse talent and seeks to treat others the way they would like to be treated. We find the way the company has stated its values as being unusually personal in its approach, which is refreshing. Moreover, as a client of Duke Energy, Stewardship Partners witnessed them living up to these values as well.

Stewardship Partners also has a unique window into how Duke Energy treats its employees since we know friends and family members who have worked for the company. Once again, we have observed a company that lives up to the high ideals it has set for itself. In addition to competitive pay and performance bonus packages, the company offers a wide variety of worthwhile benefits. Among these are flexible schedules and leaves for family and medical issues, bereavement, other personal issues and military service. The company also offers assistance to employees seeking to adopt children. Medical benefits are extensive and include healthcare and comprehensive dental insurance in addition to wellness programs and medical spending accounts that allow employees to put aside pretax dollars for medical uncovered expenses. Pension and 401(k) plans (with lucrative company matching) are also available to employees. Life, accident and long term disability insurance are also available to employees. The company also has a program to assist disabled military veterans, as well as others with disabilities, to find a job at Duke Energy. Duke’s treatment of its staff is admirable.

Duke Energy’s emphasis on philanthropy has long been a part of the company’s culture. The company matches 50% of employee donations to 501(c)(3) charities and 100% when the employee’s gift is to an educational institution. The Duke Foundation gives away millions each year to a wide variety of charitable groups but focuses on education, leadership training, arts and culture as well as energy efficiency and conservation. The company also organizes employees and retirees for volunteer projects, often providing financial assistance as well. In 2009, retirees alone accounted for over 200,000 hours of service to their communities over hundreds of projects.

Duke Energy’s good works are, of course, no guarantee of long-term investment success. As Biblically Responsible Investors, however, the company’s comprehensive efforts to be a good corporate citizen, its philanthropic activities 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 – JP Morgan – Abortion, Homosexuality and too Powerful

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

JP Morgan Chase is one of the largest, most powerful financial firms in the world. JP Morgan was the largest US financial institution to most easily survive the 2008 financial crisis. JP Morgan has been able to grow even more powerful as a result of the absence of some of its previous competitors. One, Bear Stearns, actually was absorbed by JP Morgan after it failed. JP Morgan is also the largest player in the world in the derivative securities business. This lightly regulated market for derivatives is believed to produce unusually large profits for JP Morgan while allowing it to have unusual market power across a variety of other financial markets. The company’s consistent profitability in its proprietary securities trading, where it had quarters when it never suffered a daily loss on its trading desk, highlights the seemingly unfair advantage it (as well as many other large financial firms) has over average investors. JP Morgan Chase is one of the nation’s “too big to fail” banks and it would likely be best for this company to be broken up into smaller pieces. Its huge size and powerful market influence almost certainly allows the bank to benefit at the expense of most other investors, something which undermines investor confidence in the financial markets and, thus, capitalism.

While the company has not made contributions to Planned Parenthood in recent years, the company’s past sizable efforts to support abortion remain disconcerting. The BRI Institute fails a company for a period of five years following a contribution to support abortion and JP Morgan’s last contribution was a $30,000 donation to Planned Parenthood in 2007. The company’s advocacy for the sin of homosexuality is one of the most strident in corporate America as the BRI Institute labels the company as one of the “Most Active Promoters” of homosexuality. These unfortunate uses of shareholder resources to promote sinful activities are regrettable.

Excluding JP Morgan Chase 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.

STEWARDSHIP PARTNERS — MINISTRY COMMENTARY

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 – Trans World Radio

"Go into all the world and preach the good news to all creation." Mark 16:15 (NIV)

Trans World Radio ("TWR") was founded in 1952 by Dr. Paul E Freed, a man with an intense desire to tell others about Jesus Christ. TWR's first programs aired in two languages from a transmitter in Tangier, Morocco, and now the ministry airs programs in more than 200 languages and dialects. Trans World Radio participates in fulfilling the Great Commission utilizing mass media to proclaim the Gospel to as many people as possible. TWR broadcasts to more than 160 countries via more than 2,000 broadcast outlets reaching millions of listeners. It produces these programs to meet the unique needs of the people living in various regions of the world. It utilizes 40 transmitters from 14 primary sites worldwide and transmits by satellite to three continents. TWR consists of an international staff of more than 2,000 people serving in over 40 countries. TWR receives over 1.5 million letters yearly from listeners in more than 160 countries. Needless to say, TWR's ministry impact is considerable.

TWR's ministry operates on two levels at once. (1) At the macro-level, TWR is engaged in building and maintaining a technological infrastructure which can carry Christian programming to people all over the globe, especially those living in remote and hard-to-reach locations. (2) At the micro-level, TWR is hard at work with its many partners in developing and translating programs, obtaining air time on more and more stations, arranging for follow-up activities to people who have indicated a response to the programs, and developing special radio-based projects which address specific spiritual and physical needs of people in a particular region.

Trans World Radio is a very worthy ministry that has excelled in spreading the gospel message to many people who might never hear Good News in any other way. Additionally, the ministry effectively utilizes the financial resources donors entrust to it as reflected by the Three Star Financial Efficiency Rating earned from MinistryWatch.com. TWR 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 – National Christian Foundation

"Good will come to him who is generous" Psalms 112:5a (NIV)

The National Christian Foundation (NCF) is the country's largest community foundation devoted to helping Christian donors give wisely to further the Gospel of Jesus Christ. Founded in the early 1980s by current board member Terry Parker along with Ron Blue and Larry Burkett, NCF and its affiliates have facilitated over $2.5 billion in gifts to over 20,000 ministries. Under strong leadership from CEO Bill Williams and President David Wills, NCF has greatly expanded its offerings in recent years. Given the excellent services NCF provides to Christian donors, it is likely that its impact on Christian ministry will continue to grow rapidly in the years to come. NCF houses thousands of separate donor-advised funds and has assets of over $1 billion. Grants from funds overseen by NCF are always aligned with the foundation's Christian worldview. With over 200 employees working out of local offices around the nation, NCF has assembled a staff of charitable experts that is second to none.

NCF's services to Christian donors include fund accounting, administration, legal advice and access to professionally-managed portfolios. Such services provide donors with an alternative to setting up their own private foundation, which can be costly, time-consuming and subject to certain limitations. NCF also has the capacity to handle complex gifts such as real estate and closely-held stock. Additionally, NCF can provide philanthropic counseling to major donors and also will provide assistance to communities that want to establish a local community foundation.

Many wise Christian donors have already taken advantage of the resources available from the National Christian Foundation, including Rusty and Carol Leonard, the founders of Stewardship Partners. Additionally, Stewardship Partners currently manages a portion of NCF's Pooled Fund assets.

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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