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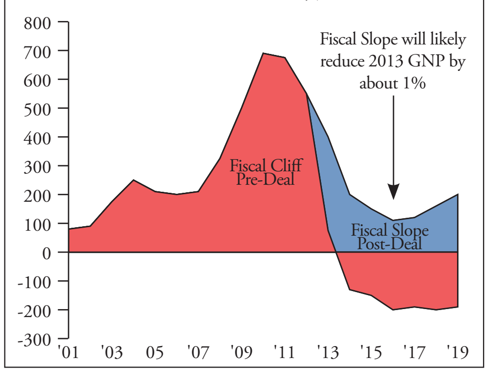
Stepping More Quickly Away From the Edge of the Abyss

"You will be secure, because there is hope; you will … take your rest in safety." Job 11:18 (NIV)

In our opinion, one of the best, if underutilized, lines from Governor Romney's failed presidential campaign was "people are tired of being tired". The nearly non-stop crisis atmosphere since the crash in 2008 has most everyone mentally and emotionally exhausted to one degree or another. In 2012, economic and social conservatives have been particularly battered as they have witnessed the winds of the political landscape turn against them and are convinced the long-term economic consequences of this leftward shift in our nation could be devastating. As we entered 2012, no one could have imagined conservative Supreme Court Chief Justice John Roberts would be the swing vote that would preserve Obamacare, a program whose costs are certain to heavily burden our economy in the years ahead. Nor did many expect to see President Obama win re-election so easily when his track record was so weak and his negative campaign was the polar opposite of the "Hope and Change" espoused when he first won the presidency. Ending the year with Congress and the President pulling together a poorly conceived, last minute, at best half solution to the Fiscal Cliff problem hardly cheered any sensible long-term investor's spirits. While this deal turned the Fiscal Cliff into a less threatening Fiscal Slope (Chart 1), which was greeted by a nice rally by the increasingly short-term focused stock market, the majority of the hard work on restoring fiscal sanity has yet to be done. For Christians, concern about the state of the church and increasingly threatening government policies toward it are also worrying. The exasperation many feel is understandable in view of all these troubling economic, political and social developments.

Chart 1

Fiscal Cliff Now Just a Slope After Deal
Deal Prevents Most Tax Increases and Reduces Drag on Economy
Net Federal Fiscal Stimulus, $ in Bil.



Source: Strategas

Table 1

4Q12 & YTD Total Returns

US Indices	4Q12	YTD
S&P 500	-0.38%	16.00%
S&P 500 Value	1.64%	17.68%
S&P 500 Growth	-2.04%	14.61%
NASDAQ	-2.65%	17.45%
S&P 400 (Mid Cap)	3.61%	17.88%
S&P 600 (Small Cap)	2.22%	16.33%
Treasury Bonds	-0.10%	2.16%
High Grade Corp. Bonds	1.21%	10.37%
Gold	-5.46%	7.14%
Global & International Indices		
MSCI World	2.49%	15.83%
MSCI EAFE	6.57%	17.32%
MSCI Euro	9.83%	21.61%
MSCI Far East	5.56%	11.81%
MSCI Japan	5.78%	8.18%
MSCI Emerging Markets	5.58%	18.22%
US Economic Sectors		
Energy	-2.75%	4.61%
Materials	2.69%	14.97%
Industrials	3.70%	15.35%
Consumer Discretionary	2.11%	23.92%
Consumer Staples	-1.75%	10.76%
Health Care	0.07%	17.89%
Financials	5.92%	28.81%
Information Technology	-5.72%	14.82%
Telecom	-6.02%	18.31%
Utilities	-2.85%	1.29%

Source: Bloomberg

While for many 2012 seemed like a year which ushered in a continuous flow of bad news, the truth is the global economy moved considerably away from the edge of the abyss it was perched on during 2011 and even into 2012. Due largely to a series of actions taken by the European Central Bank (ECB), the European banking and currency crisis moderated significantly in 2012, thereby helping the global financial system avoid another 2008-like debacle, at least for now. It was not until ECB President Draghi declared the Euro would not fail and the market should not doubt his ability to preserve it last summer, that the threat from of a European-led global financial meltdown truly began to ease. With the threat of a European catastrophe slowly melting away, the financial markets responded favorably (Table 1). Furthermore, the US economic recovery slowly increased in vigor, and China made significant moves to boost its economic growth as well, thereby adding to the sense the global economy was now moving well away from the edge of the abyss it could have so easily fallen into in 2011. Equities, at greatest risk from another calamitous market crash, benefitted the most from this slow global healing. Financial stocks were by far the best performing sector in 2012, while traditionally safe shares in the utilities sector trailed the S&P considerably. Similarly, high yield, low quality bonds also rebounded strongly, while higher quality bonds had muted returns. Despite the ongoing recession in much of Europe, European shares were the best performers in 2012, led again by the financial stocks aided by the ECB's aggressive intervention to keep them alive.

While 2012 ended on a stronger note for Stewardship Partners, which has continued so far in 2013, during the first half of 2012 the performance of our portfolios was well below the indices. This is partly explained by our unwillingness to fully embrace hazardous financial shares given the high risk another crisis would occur. Beyond that, our results were also hurt by what we can only describe as unusually bad luck with our stock picks in the first half of 2012. What we considered our best picks too often turned out to be our worst. We suspect the law of averages will help us in 2013.

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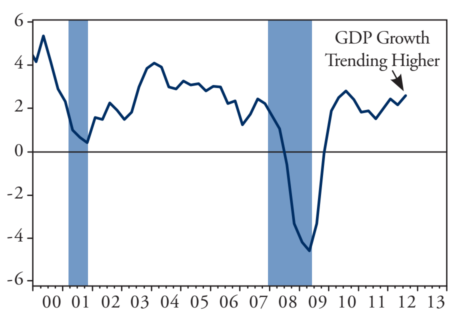
Global Economic Healing in the Midst of Rising Long-Term Concerns

"I will heal my people and will let them enjoy abundant peace and security." Jeremiah 33:6b (NIV)

The all-too-predictable, last minute, patched together, politically motivated, half solution to the Fiscal Cliff highlighted once again the inability of our elected officials to act in an adult manner. We have said before the solution to the economic and social problems the US faces requires statesman and, sadly, few can be found in our nation's capital at this time. As the Fiscal Cliff year-end deadline approached and Washington's dysfunction was on full display, we actually began to wonder if the optimal result for the nation would have been to actually go over the cliff. Doing so would have meant falling immediately into a recession. Still, as Alan Greenspan is said to have remarked, that would be a small price to pay for the massive improvement which would have occurred in the federal deficit as a result of the higher taxes and enforced spending cuts if no Cliff-altering legislation had been passed. Given the fact our leaders seem incapable of making the courageous political decisions required to stabilize our nation's long-term finances, going over the cliff could have produced the best long-term outcome for the economy. The politically expedient solution which was crafted instead likely will only slow the recently reinvigorated US economic growth, but at a cost of making the long-term debt and deficit worse. Coming negotiations regarding the debt ceiling, sequester and budget will give our leaders yet another chance to put forth a credible plan to bring government finances to a sustainable path. While we expect further progress will be made, we suspect we will still be dismayed with both the process and the outcome.

Chart 2

Recovery Has Been Slow, But Is It Poised to Improve?
Real GDP yoy % Change SAAR



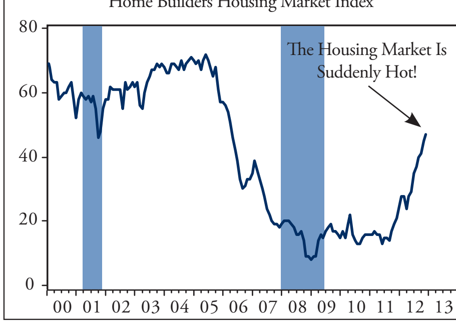
Source: Bureau of Economic Analysis, Strategas

We will also confess to being upset that the stock market rewarded the bad behavior of our politicians in the Fiscal Cliff legislation with a rally. Sadly, the market's focus has become incredibly short term in the era of high frequency trading and computer algorithms instantly reacting to digitized headlines. Since the agreement did likely avoid a new recession, corporate earnings should remain at a high level thereby helping share prices. Moreover, the much-feared massive increase in taxes on capital gains and dividends were avoided. In the end, relatively small tax increases on such income will impact only a tiny sliver of the population that enjoys a very high income. Accordingly, a relief rally was not all that surprising.

The foolishness of not being able to come to an agreement well before the deadline hurt the economy in the fourth quarter. Businesses quite sensibly slowed their decision making until the new rules were known. As a result, there is a bit of pent-up demand in the system which could help offset some of the growth squelching aspects of the tax increases included in both Obamacare and the Fiscal Cliff legislation. The easiest way for the US to improve its federal deficit is to enjoy strong economic growth. Despite massive government fiscal and monetary stimulus, economic growth has been steady, but low, during the current recovery (Chart 2). Still, economic data during the second half of 2012 showed an unmistakable stronger growth bias. As US banks have regained strength, the economy has reflected that improvement. Not the least of the areas benefiting has been the long moribund housing sector. The rapidity of the recent improvement in this area can be seen in Chart 3. Since housing's collapse was the trigger which initiated the Great Recession, it makes sense its recovery would signal a return to more normal economic growth in the US. Even with the restraints coming from higher taxes, increased regulations and seemingly suicidal fiscal policies, our sense is this economy wants to grow. Capitalism has a natural growth bias which has overcome many efforts to slow it in the past. We often note capitalism produces strong growth even in China where the graft-filled, Communist political system offers even greater challenges than our often bumbling political leaders.

Chart 3

Housing Market Is Now Recovering Rapidly
Home Builders Housing Market Index



Source: National Association of Home Builders, Strategas

Chart 4

Italian Manufacturing Stability Raising Hope of Recovery
Italian Manufacturing PMI

Source: Markit/Associazione Ital Acquisti e Supply Mgmt, Strategas

There is also room for optimism in Europe, where governmental leadership is truly convoluted. Chart 4 highlights recent signs of a positive trend in Italian manufacturing. While still contracting, Italy's economy seems to have hit bottom and is now heading in the right direction, well before anyone expected such hopeful trends. Naturally, these trends are just forming and could easily reverse. Accordingly, we are not willing to declare Europe's troubles as over yet. Still, we are encouraged by these early

Chart 5

Italy's Falling Yields Signal the Worst May Be Over

Italy's 10 Year Gov't Bond Yield

Source: Strategas

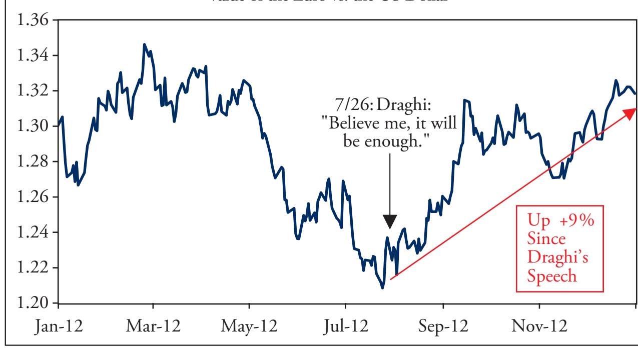
favorable indications and are hopeful by the end of 2013, a moderate recovery in Europe's fortunes will be more firmly in place.

Perhaps more important for Italy and the other so-called PIGS is the substantial improvement in their government bond yields. Chart 5 displays the steep decline in Italy's 10 year government bond yields. As seen, these yields peaked in late 2011 when the European Crisis was on the verge of throwing the world financial markets into another tailspin. These rates rose again in the middle of 2012 as worries resurfaced that Europe's politicians would be unable to effectively manage the region out of its sovereign debt and currency crisis. Fortunately, the ECB came to the rescue once again and put forth a plan to avoid sovereign defaults in Spain and Italy, thereby restoring faith in the Euro as well. Chart 6 portrays the date where ECB president Draghi answered a doubter's question with a very firm reply that plans the ECB would unveil to prevent the Euro's demise would be more than sufficient to impress the markets. Both the value of the Euro and the interest rates on sovereign debt in Europe immediately reversed on this statement and the crisis has eased ever since. The markets chose to believe Draghi could and would back up his claim and the financial markets quickly reflected this. In the end, the Euro actually ended up slightly appreciating versus the dollar in 2012, which made little sense even in light of Draghi's remarks. While we do not expect an unending string of good news on these fronts, we do believe there is a significant opportunity for 2013 to be a year of continued improvement for the global economy.

Chart 6

When Draghi Speaks, Investors Listen!

Value of the Euro vs. the US Dollar



Source: Strategas

Moving Towards Freeing the Markets From Government Intervention

"Do you want to be free from fear of the one in authority?" Romans 13:3b (NIV)

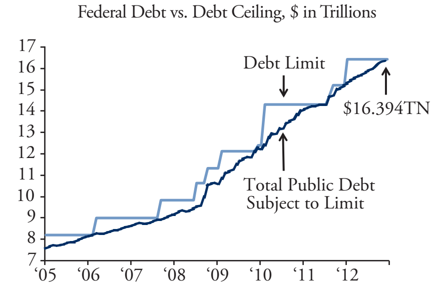
As the global economy moves closer to a self-sustaining recovery, we are hopeful the extremely high level of government interference in the economy and markets will rapidly recede. The distortions caused by the constant interventions and the "all or nothing" aspect of many of these actions made portfolio management particularly challenging in recent years. Money managers like Stewardship Partners have confronted on several occasions situations where a critical government or central bank decision on a specific date would result in either investment success or disaster. Prudence required taking a cautious approach in such circumstances even when the odds of a successful resolution were greater than 50%. We will be very happy to see the role of government in the economy and financial markets diminish in the years to come as the markets increasingly are freed to operate more normally. Should our political leaders be able to avoid self-inflicted wounds and unanticipated shocks, we believe government interventions will shortly become far less frequent and important.

Unfortunately, even after the Fiscal Cliff showdown, we still have one more potentially market-moving government decision staring us in the face, which, if handled improperly, could result in a self-inflicted wound. Actually, there are three important government actions needing to be resolved in the next two months. A successful outcome to these negotiations is necessary to keep the economy on a recovery path and the financial markets moving higher. First, the nation's debt ceiling must be raised as its credit limit was reached as of December 31, 2012 (Chart 7) and special arrangements by the US Treasury may only extend the government's ability to function until mid-February. The contentious and extended debate during the last debt ceiling negotiations in 2011 resulted in a very sharp decline in stock prices and a downgrade of the US credit rating by S&P. This time around, however, Congressional Republicans are poised to be more conciliatory in the debt ceiling negotiations recognizing they do not have a strong political hand on this issue. The current Republican plan for temporary extensions of the debt ceiling should avoid problems for the financial markets in the short term.

Chart 7

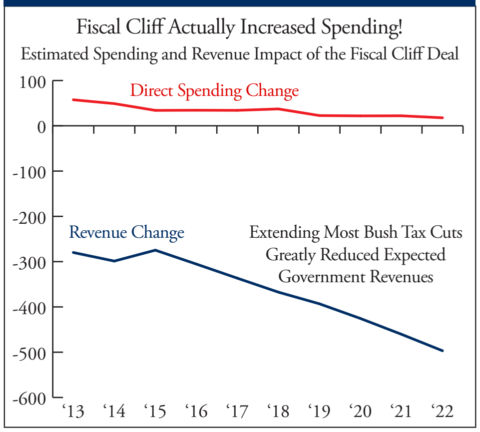
Debt Ceiling Needs to Be Dealt With by Mid-February

Federal Debt vs. Debt Ceiling, $ in Trillions



Source: Strategas

Chart 8

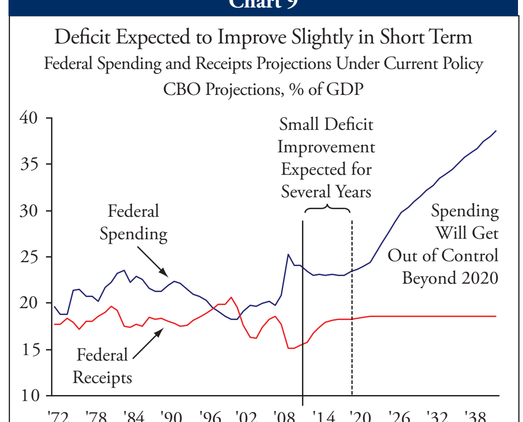


Source: Congressional Budget Office, DoubleLine

The second issue has a March 1 deadline; it is what is referred to as the sequester. This is mandated government spending cuts that were part of the original Fiscal Cliff, but which were postponed by two months in the deal reached at year end. As a result, if nothing is done, significant cuts in defense and other spending will automatically take place beginning in March. If allowed to proceed, it would pose a further fiscal drag on US economic growth and could even lead to a recession being triggered. Republican negotiating leverage in this debate is also low since the majority of automatic spending cuts come in defense and other areas where Republicans would prefer to limit reductions. We suspect negotiations on legislation aiming to reduce the impact of the spending cuts in the sequester will be more contentious but, ultimately, the Republicans will be forced to settle for far fewer cuts than they were targeting, spread out over a longer time period and targeted mostly in areas they would rather not see affected. Additionally, they will probably acquiesce to legislation which will effectively, if not actually, be tax increases. They simply do not have the political leverage at the moment to win on this issue. Also, as seen in Chart 8, Republicans were not able to extract any spending cuts at all in the Fiscal Cliff legislation. While the sequester negotiations give them a second chance to achieve spending cuts, it should be obvious at this point that reducing government spending on entitlements is not a winning political issue. Given the weakened political state of the Republican Party and its desire to not lose the House in the 2014 elections, it is hard to see how fiscal conservatives like ourselves will be thrilled about the outcome of the sequester negotiations. Still, we do believe some limited progress on reducing spending will be made and Congress will greatly limit the immediate impact on the economy from spending cuts. That should be enough to keep the financial markets happy in the short run.

The final issue coming to a head is the need for a Continuing Resolution to allow the government to spend money beyond the end of March. Given the Democrats' unwillingness to put forth a formal budget over the last three years, the government has only been able to operate due to congressional agreement to approve Continuing Resolutions. In light of the Democratic Senate's reluctance to present a formal budget for so long, the political advantage on this issue might be more in the Republican camp. We suspect the Republicans will put up more of a fight in this case and the possibility exists we may face a government shutdown if the Democrats believe this will weaken the Republican's position further. In the case of the sequester and the Continuing Resolution, the path forward is still quite hazy. In the weeks to come, however, we expect alarmist headlines to become more common as each side stakes out its position on these crucial negotiations. In the end, however, we expect all of these issues to be resolved in a relatively timely manner which makes few people happy, but does avoid significant immediate economic pain for the economy. Sadly, that is all the financial markets require of our politicians now. Moreover, the markets may not respond negatively to the headlines knowing an adequate resolution is likely.

Chart 9



Source: Congressional Budget Office, Strategas

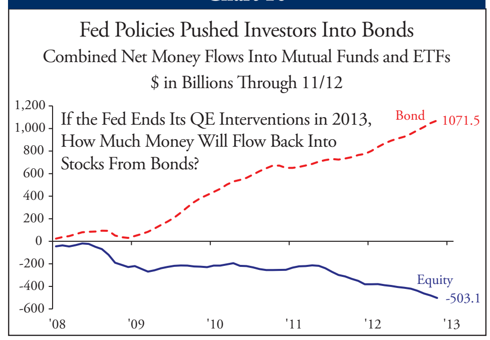
One reason the financial markets are not more concerned with the disconcerting debt and deficit trends is revealed in Chart 9. Current projections by the Congressional Budget Office (CBO) indicate slight improvement in our deficits over the next several years while the eventual explosion in federal outlays does not begin until late this decade. The threat of disaster is certain if nothing is done but since the danger is not immediate, the markets appear willing to ignore it. Furthermore, there is a chance the short-term improvement in our government's finances might turn out to be even better than the CBO is projecting should economic growth surprise on the upside. We also would not be surprised if the implementation costs of Obamacare get stretched out over a longer period than now expected simply because the move to this new system may prove far more complicated than can be addressed under the current timeframe. In the end, we do not expect serious fiscal reform until the markets demand it. Politicians on both sides of the aisle have clearly shown they are incapable of fixing long-term problems in advance of a crisis, when the needed adjustments would be easiest to accomplish. Accordingly, we are almost certainly doomed to face a deficit and debt crisis at some point in the future. Absent some economic shock that brings the issue forward, however, we suspect this may still be several years away. As a result, we expect to be mostly frustrated by whatever new legislation is enacted over the next two months as legislators almost certainly will avoid hard choices. At the same time, we also expect the markets to greet this suboptimal solution with a rally since a 2013 recession should be avoided and corporate earnings will therefore not be threatened. Moreover, the equity markets may celebrate the fact government intervention should start to diminish beyond the March negotiations. If the sequester and budget can be addressed in a manner that avoids forcing the US economy into a recession, which we believe is the most likely scenario, there will be no significant new budget issues on the horizon which might impact the market in 2013. Even the Fed is talking about ending its QE efforts during 2013. Greater freedom for the markets to operate more normally without disruptive government intervention is something we at Stewardship Partners are certainly looking forward to.

WILL BOND LOSSES LEAD TO STOCKS GAIN?

"You must not lend him money at interest." Leviticus 25:37a (NIV)

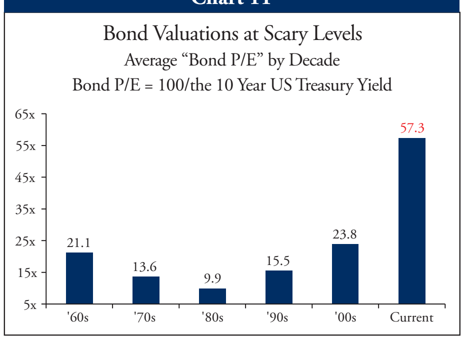
If government intervention in the markets, particularly from the Fed, does diminish in 2013 as we suspect it will, equities stand to be one of the primary beneficiaries. When the recent Fed minutes indicated the desire by many Fed governors to cease QE3 during 2013, bonds immediately sold off. The Fed's massive purchases of mortgage-backed securities and Treasuries since the crash clearly lowered yields to well below where they would have otherwise been. This sizable distortion in the marketplace led investors to try to front-run the Fed's purchases, further increasing the demand for bonds and lowering rates. Chart 10 shows how money rushed into bond mutual funds and ETFs over the last four years while equity mutual funds and ETFs suffered from continuous withdrawals. Should the Fed end its intentional distortion of interest rates, it is reasonable to expect many of those invested heavily in bonds and benefitting from the Fed's bond investor welfare program to quickly abandon fixed-income securities knowing that higher interest rates and lower bond prices are the end result. If even a relatively small portion of the money invested in bonds makes its way back to equities in the year ahead, share prices stand to benefit. With the global economy healing, a shift into stocks from bonds makes sense.

Chart 10



Source: Strategas

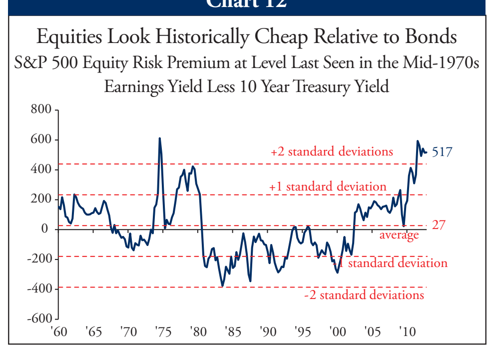
Chart 11



Source: Strategas

With the Fed talking about ending its multi-year subsidy for bond investors, bond holders had better be paying attention. Chart 11 highlights just how overvalued bonds have become versus historical standards. It would be hard to argue against the notion that bonds have been in a pretty serious bubble with valuations now more than twice those in the last decade and more than five times higher than what was seen in the 1980s. We expect the Fed will do its best to pop this bubble quite slowly, but there should be no doubt that the risk in holding bonds has probably never been higher. The Fed has inflated a giant bond bubble and is now talking about ending the programs that inflated it. That is all bond investors should need to know in order to take evasive action and we suspect many will. Again, equities will almost certainly be a beneficiary of this reversal in fund flows.

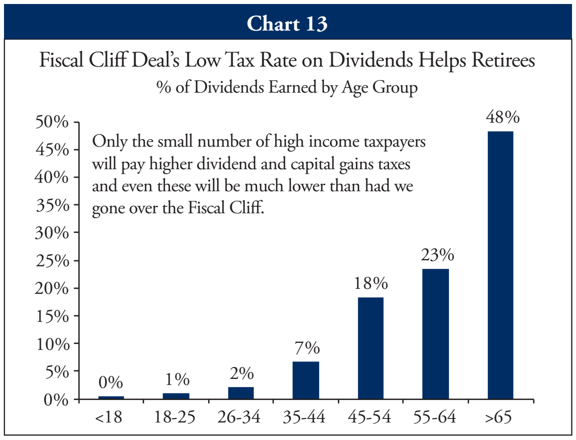
Chart 12



Source: Strategas

Just as bonds are historically overvalued, equities are historically cheap on some measures. The S&P 500 price-earnings multiple is now about 14 and outside the US, equity valuations are often even more attractive. One measure of equity valuations, the Equity Risk Premium, indicates equities are even more attractively valued than at the beginning of the great bull market run that began in 1981 (Chart 12). Since price-earnings multiples at that time were in single digits and interest rates were very high, we doubt equities are about to replicate that magnificent two-decade bull run. Still, equities seem poised for a favorable period powered by money reversing out of bond investments and into stocks. Bond investors have likely already noted they would have been better off in stocks in 2012. Once they actually start losing money while stocks continue to advance, there may be a stampede to get out of bonds.

Chart 13



Source: Internal Revenue Service, Strategas

Another big positive for equities is that capital gains and dividend tax rates were maintained at very low levels for all but the highest income taxpayers. Even the increase on them was far lower than what would have happened if we had gone over the Fiscal Cliff. This is particularly good news for retirees who earn about half of all the dividends paid (Chart 13). Elderly savers have already been hard hit by the Fed's extended low rate policy and did not deserve to be smacked down again by punitive dividend taxes.

It May Be Bad, But It's Not as Bad as You Might Think

"He will have no fear of bad news; his heart is steadfast, trusting in the Lord." Psalms 112:7 (NIV)

Christians who share Stewardship Partners' economic and socially conservative ideals cannot help but be dismayed by recent developments. It appears the country, or at least enough of its voters, have been entrapped into a more socialist mindset by easy-to-obtain, seemingly cost-free government benefits. The explosion in people on unemployment benefits, receiving free cell phones and food stamps as well as workers receiving disability pay in recent years raises alarm bells among the fiscally prudent citizenry. Add into this mix the massive new government entitlement from Obamacare and it becomes clear the self-reliance and competitive spirit that built this great nation is under assault. The class warfare utilized by President Obama in his campaign demonized the successful, and his policies have largely reinforced his apparent long-standing animus towards innovators and risk-takers. Fiscal profligacy remains unchecked and could lead to an economic crisis like southern Europe is now experiencing. The Republican Party, in theory the sole advocate for budgetary sanity, has been weakened by the elections. Unfortunately, it was not doing a very good job of maintaining fiscal order even before the elections. Given the direction of the political winds, the party is likely to be fractured with those Republicans from states with a more left-leaning populace drifting more and more towards a center-left position in order to retain their seats. Moreover, every week brings new evidence of conservative Christianity being forced out of the public square and religious liberty coming under greater attack. It is a worrisome picture, and wise observers know there will be unpleasant long-term consequences if these trends continue. It is hard not to imagine a heavenly warning in the earthquake in Virginia last year which cracked the Washington Monument and knocked carved stones off the spires of the National Cathedral, which will soon begin officiating over same-sex marriages. Sadly, warnings of all sorts are being ignored and the transformation of our country to something most of us do not recognize seems to be accelerating. Increasingly, the Obama administration's liberal agenda seems to be succeeding too easily and appears to be the opposite bookend to the two decades of change towards conservative principles brought about by the Reagan administration.

While we acknowledge all this, we also believe it is wise to keep things in proper perspective. The United States is still the greatest nation on earth. Among all the large economies, the US, despite its growing flaws, remains the most vibrant and the one poised to lead the world out of the Great Recession. It would be hard to identify a better country in which to live. As Christians desiring to follow the biblical mandate to help those less fortunate, we can also celebrate better healthcare for the poor, even while hoping for a more sensible way to pay for it. We remain the world's sole military superpower with capabilities that dwarf any other nation. Religious freedom is still largely intact and our capitalist approach has spread around the globe to many previously poor emerging market nations. Spectator Magazine recently reported that a 1990 United Nations goal to halve global poverty by 2015 was actually achieved well ahead of time in 2008 because of the success of the capitalist model in poorer countries. Global economic inequality is now lower than at any point in modern times as these economic globalization benefits are manifested. While the world's richest countries grew by 6% over the last seven years, fossil fuel consumption actually fell by 4% due largely to more efficient use of energy by consumers and businesses. Moreover, new technology means we are living in a world of energy abundance and it is possible the US will soon be self-sufficient in energy due to the huge success of fracking technology. If so, this will be a massively positive development from both an economic and security perspective. Even war is on the decline with war deaths over the last decade being the lowest in a century. Unfortunately, none of this good news is likely to be widely reported by a media that focuses almost exclusively on bad news which they regularly seek to unreasonably sensationalize to hold their viewers' attention. This is true for media outlets on both sides of the political spectrum and has led to many being more fearful of both the present and the future than necessary. While trends in government finances and politics are legitimately worrisome, it is best to consider them in an appropriate context.

The financial markets can and probably will prosper in the years ahead. Throughout history, this has been true even when circumstances were far worse than currently. Even when the Great Society programs were being unveiled during the 1960s, while conservative politicians were barely on the radar screen, the US economy prospered as did the financial markets. We do not expect European-style socialism to fully take hold in the US. Even if it did, it would hardly mean the end of life as we know it. If managed properly, as in Germany and most of northern Europe, such a system can and does work. It means less innovation, creativity and growth, but it does not necessarily lead to complete disaster. Moreover, political winds are known to change quickly in the US. We would not be surprised if by the end of Obama's current term the Republicans were poised to take control of the government again. Obama's promise to not raise taxes on the middle class is being seen right now as a lie as paychecks are reduced by the reinstatement of the full Social Security tax. Obamacare is such a complex mess that it is sure to infuriate many as it is rolled out. Inevitably, taxes will have to rise in order to pay for it and that is unlikely to go down well with voters. Democratic policies may be viewed by voters as great when they do not have to pay for them, but eventually the bills come due. Moreover our sense is Obama may be misreading his election success as a bigger mandate than the electorate intended. If so, he could soon find himself in a political mess. Accordingly, we are hopeful the future will turn out better than most now believe and the disconcerting trends will be reversed more quickly than many now imagine.

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

STEWARDSHIP PARTNERS
Biblically Responsible Investing COMMENTARY

Biblically Responsible Investing (BRI) – Investing as Jesus Would

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

Stewardship Partners, founded in 2000, is a leader in the field of investing with a Christian perspective, a form of Socially Responsible Investing (SRI) known as Biblically Responsible Investing (BRI). Rusty Leonard, CFA, Stewardship Partners' founder and CEO, practiced this investment philosophy while managing over $3 billion of assets as a portfolio manager 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, General Dynamics, and one we avoid, Limited Brands. General Dynamics is a holding in some of our Stewardship Partners portfolios while we actively avoid ownership in Limited Brands 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 – General Dynamics – Providing for Our Safety

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

Formed through the merger of several companies in 1952, General Dynamics has become a global leader in the aerospace and defense business. While the company's over 90,000 employees serve customers around the globe, the US government accounts for nearly three-quarters of General Dynamics' annual revenues. The company operates in four segments. Its aerospace segment is its one division that focuses on the needs of commercial, versus governmental, clients. In this sector, General Dynamics produces Gulfstream corporate jets and also provides a variety of services to this market. The company's Combat Systems division manufactures a wide array of land-based military products including armored vehicles, tanks and armaments for the US military and its allies. Its Marine Systems division produces submarines and surface ships primarily for the US military. This division also repairs and overhauls the submarines and ships it manufactures. The final division of General Dynamics is its Information Systems and Technology group and is the company's largest group, accounting for about one-third of the company's sales. This area of the company provides the military, intelligence community, homeland security and other national security related entities with the technology, products and services needed to protect our nation. Through innovation and acquisition, General Dynamics has become one of the largest and most important enterprises contributing to our country's impressive defense capabilities. In view of the age of terrorism in which we currently live, General Dynamics plays a huge role in keeping both our country and the world at large as safe as possible.

While some Christian investors exclude military-related companies from their investments, Stewardship Partners does not. We certainly respect the opinion of those who would rather not be associated with any company involved in war and do not criticize those who hold such a position. Such decisions are a matter of conscience and reasonable people can have different opinions on this matter. For our part, we believe a nation has the obligation to protect its citizens from potential harm via its military strength and intelligence capabilities. Furthermore, we believe the overwhelming military strength of the United States, as well as it willingness to utilize it when required, has greatly restrained evil in our world. We noted earlier the number of deaths due to warfare in the world over the last decade was the lowest in the past century. We are certain if the US had a much smaller military footprint and took a more pacifist approach, the number of dead and injured due to warfare around the world would be significantly greater. We are quick to acknowledge not every aspect of the US military makes us comfortable from a Christian perspective, but we nevertheless believe far more good comes from our military strength than evil. Indeed, we are very grateful to those who sacrificially and honorably serve our nation in the military and believe them worthy of honor. Many have given their lives to protect our freedom and there is little more Christ-like than such sacrifice. Therefore, we do not categorically exclude defense stocks from our portfolios.

General Dynamics' historic results suggest it is a very well-run company, which makes it attractive to long-term investors like Stewardship Partners. Other aspects of General Dynamics' operations also attracted our attention, not the least of which was the company's treatment of its employees and its commitment to ethical behavior. General Dynamics' corporate ethics program began in 1986, well before most companies had started to focus on such issues. Reflecting the company's strong commitment to ethical operations, the company has 13 business unit Ethics Officers and 120 local Ethics Officers. The focus of the company's ethics policy is the company should offer a fair deal, keep its promises and earn a fair return. The emphasis on fairness is much appreciated by Stewardship Partners as we are not looking to invest in companies that earn high returns by taking advantage of their employees, suppliers or clients. Employees can report potential ethical concerns anonymously via a 24/7 helpline. General Dynamics also provides an extensive array if benefits to their employees, including medical, dental, vision, life, long-term disability and other insurance products. Also offered are a variety of retirement and stock saving plans, childcare assistance and legal resources. General Dynamics employs thousands of military veterans and encourages veterans to apply for opening at the company. When an employee is deployed in military service, the company pays them the difference between their military pay and their compensation at General Dynamics.

General Dynamics also has an impressive commitment to philanthropy. Not surprisingly, the company supports a number of military-related charities. The company is one of the largest financial supporters of Our Military Kids which supports children of deployed and severely injured military personnel. It also provides funding for the USO, Operation Gratitude which sends care packages to deployed military personnel and the Wounded Warrior Project. The company also supports a variety of educational and health charities via both donations and volunteer efforts. General Dynamics has also shown worthwhile progress in limiting the company's impact on the environment. Greenhouse gas emissions have been reduced significantly over the last five years and in each of those years. The company has also made meaningful strides in recycling waste throughout its operations in recent years. Due to the nature of its work, General Dynamics also must handle hazardous wastes. As a result, management has focused on improving procedures to both reduce the use of hazardous wastes and to minimize the environmental impact when such substances are used.

General Dynamics' good works are, of course, no guarantee of long-term investment success. As Biblically Responsible Investors, however, the company's commitment to excellent stewardship 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 we can be proud to own!

The Bad – Limited Brands – Abortion, Bad Advertising, Homosexuality

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

Limited Brands is one of the larger global retail companies with over 2,600 stores in the United States, 680 stores overseas and over 90,000 employees. Founded by legendary retail mogul, Leslie Wexner in 1963, Limited Brands has grown to over $10 billion in sales via its five different brands. The objective of the company is to "help customers feel sexy, bold and powerful". The company hopes its brands will "entice customers to pamper and indulge themselves". Not surprisingly in view of these company goals, the most well-known brand in Limited Brands' stable is the provocative Victoria's Secret retail stores which can be found in most shopping malls in the United States. The heightened emphasis on sexually titillating images in these stores and the similar advertising efforts of the chain do not comport with biblical values. Despite the strong financial performance of the company, this simply is not a stock Christian investors are likely to be comfortable owning due to the risqué nature of its business as well as the company's efforts entice their customers to be self-indulgent.

Our concerns about Limited Brands, however, are not restricted to just its Victoria's Secret stores and the unhealthy attitudes the company promotes. Sadly, the company has historically been a significant financial supporter of Planned Parenthood. Between 2008 and 2010, the company donated $85,000 of shareholder funds to the largest abortion provider in the US. Additionally, the Parent's Television Council has named Victoria's Secret as one of the top ten worst advertisers on television due to its proclivity to advertise on the most sexually graphic, violent and profane programs. Moreover, the company has also been a heavy financial supporter of a variety of homosexual groups. In view of all of this, Limited Brands is not suitable for investment.

Excluding Limited Brands 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, as best we can tell, the Internet's top site for donors to Christian ministries to gather critical information about the ministries they are considering supporting. The site contains a variety of helpful information about hundreds of the largest US-based Christian ministries including ministries statements of faith, the history of the ministry, program accomplishments, ministry financial statements and financial efficiency ratings. 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 help you bless God's people who are in need, and clients of Stewardship Partners have access to further resources from MinistryWatch.com. It is our sincere desire to see Christians leading the way in giving generously, wisely and effectively so that the Lord's work on earth can be completed and many can be both blessed and saved.

Featured Ministry – Truth for Life – Proclaiming the Word

"For I have not hesitated to proclaim to you the whole will of God." Acts 20:27 (NIV)

Truth for Life broadcasts the much-admired bible teaching of Pastor Alistair Begg over 1,500 radio stations, in print and over the Internet. The ministry, which reaches millions of listeners, seeks to faithfully proclaim the Word of God with clarity and relevance. The ministry desires to see unbelievers come to a saving faith in Jesus, help believers grow in their faith and strengthen the local church. Pastor Begg has been in pastoral ministry since 1975 after attending the London School of Theology and Westminster Seminary. After pastoring in his native Scotland for 8 years, Pastor Begg moved to the United States in 1983 and became pastor of Parkside Church in Cleveland, Ohio. In 1995, Begg's ministry was extended via the establishment of Truth for Life, a donor-supported ministry that operates independently from Parkside Church. Pastor Begg has also written or edited seven books and even had a role in the 2004 Christian-themed movie "Bobby Jones: Stroke of Genius".

High-quality Bible teaching has been nearly the sole focus of Pastor Begg's ministry. After nearly 40 years of ministry, Pastor Begg's inventory of meaningful messages is exceptionally deep and these teachings provide a rich resource for the radio ministry. Begg's warm personality and easy delivery add to the effectiveness of his solid biblical instruction. Fellow theologian R.C. Sproul said that Begg is "a humble champion who has been galvanized by a magnificent obsession with the God-centered life. He breaks the mold of contemporary evangelicalism, the mold that has been marred by narcissism and sullied by a preoccupation with a man-centered focus on method, technique, and a virulent form of self-esteem." Begg's belief in the inerrancy and supremacy of scripture has served him well in his teaching ministry as the popularity of Truth for Life's program continues to grow. Moreover, the ministry is well managed from a financial perspective as well.

Truth for Life is a biblically sound teaching ministry which is having an impact around the world that is significant, particularly in relation to the relatively low level of investment required to keep the ministry running. Pastor Begg's clear and effective sermons are drawing unbelievers to Christ and helping believers grow closer to their Savior. 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. Truth for Life also was a MinistryWatch.com Shining Light Award winner in 2007, 2008 and 2011 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)
- Global Generosity Movement (generositymovement.org)
- Sound Mind Investing (soundmindinvesting.com)
- The Gathering (thegathering.org)
- MaximumGenerosity.org (maximumgenerosity.org)
- Stewardship Ministries (stewardshipministries.org)

HOW to give with a discerning mind?

Professional Advisors:

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

Donor Advisors:

- Excellence in Giving (excellenceingiving.com)
- Calvin Edwards & Company (CalvinEdwardsCompany.com)
- Kardia (kardiaplanning.com)

WHERE to invest in kingdom ministries?

Ministry Research:

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

Ministry Mutual Funds:

- National Christian Foundation (nationalchristian.com)
- Strategic Resource Group (srginc.org)
- Sovereign's Wealth Fund (swfund.org)

Featured Ministry Marketplace Participant – Global Generosity Movement

"You will be made rich in every way so that you can be generous on every occasion." 2 Corinthians 9:11 (NIV)

The Global Generosity Movement is a joint initiative of the Lausanne Movement and the World Evangelical Alliance. Its work is spearheaded by Sas Conradie who operates out of England. It collaborates with churches, Evangelical and other Christian Alliances, Christian networks, Christian business leaders, Christian professional networks, Christian workplace fellowships and generosity ministries to encourage Christian giving and stewardship. The Movement has a vision of the whole Church living out and taking the whole gospel to the whole world as effective and generous stewards. The desire is to challenge the whole Church towards whole-life discipleship that includes radical generosity and wise stewardship. The Global Generosity Movement hopes to prompt a dramatic increase in giving to global missions, especially for ministry in areas and groups with few if any Christians. The Movement believes stewardship and generosity can and should be primary focal points and themes in discipleship for a vibrant and holistic church. The impact of generosity is enhanced as each Christ-follower is educated and equipped as a good financial steward of all God's resources.

The calling to create, manage and invest wealth and resources is a gift from the Lord; working in and through the lives of those he created. The result of generosity can produce positive and negative consequences in the lives of givers and receivers. Therefore, it is incumbent upon every Christian to exercise generosity in ways that foster dignity and promote personal responsibility. In view of these beliefs, the Movement has established a five year initiative which aims to: create generosity awareness, encourage generosity commitment, facilitate generosity engagement, and catalyze generosity collaboration globally. As this five year plan is carried out, key outcomes will include: generosity and stewardship being integrated into discipleship and Christian leadership development programs, a dramatic increase in giving to Christian causes, and increased giving to ministry amongst the unengaged, unreached. These are ambitious goals which we at Stewardship Partners fully support.

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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