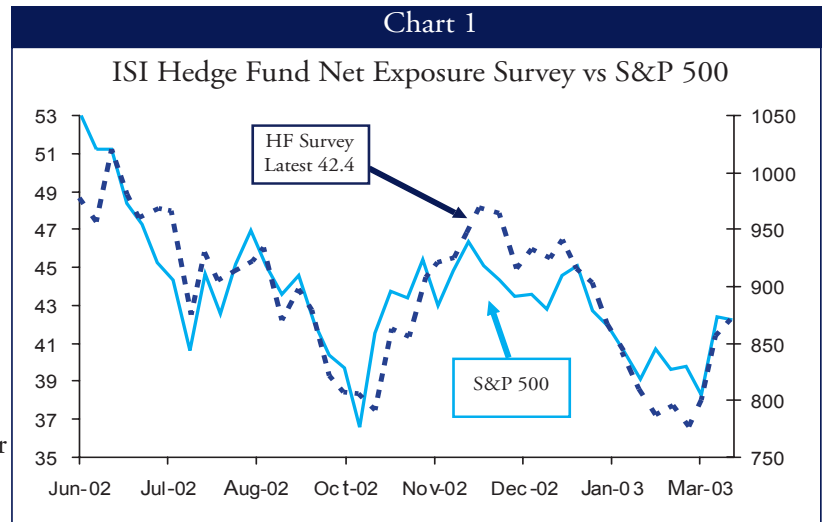


## THE COST AND BENEFITS OF WAR

*"There is a time for everything and a season for every activity under heaven... A time for war and a time for peace".  
 Ecclesiastes 3:1,8b (NIV)*

While stock prices rallied nicely at the outset of 2003, the diplomatic daggers that were unsheathed prior to the coalition attack on Iraq quickly undercut investor confidence and highlighted growing dissension between once-trusted allies. **Consternation about these fractured alliances, and the consequences of war in an age of weapons of mass destruction, caused buyers of equities to retreat to the sidelines. This left share prices exposed and they were quickly taken prisoner by hedge funds, which saw a splendid trading opportunity in shorting stocks with impunity until this uncertainty was resolved** (as seen in Chart 1 where a declining net exposure indicates increased selling and shorting by hedge funds). As a result, stock prices in the US declined over 15% from the early January highs until mid-March when, what had been obvious from the outset became reality – the US led coalition would indeed attack Iraq. As short sellers scrambled to cover their positions, share prices rose back to positive territory before retreating again as the quarter came to a close. In the end, it was a losing, volatile quarter where war issues dominated and opportunities to add value via a long term, fundamentals-based, stock selection methodology were limited.



Source: ISI Group

In view of this volatility, some have questioned the wisdom of President Bush's doctrine of preemption that contributed to the stock market's first quarter decline. Simply put, it states that the US can attack another country even before it itself is attacked if there is significant evidence that suggests a country might attack us or aid a group that may attack us. We believe that history will ultimately determine that this policy was indeed wise. Nevertheless, as investors, we recognize that it is a bold and disruptive strategy that enlarges the scope of potential outcomes. If it is successful, as we believe it will be, the power of evildoers will be eroded and any new tyrants will likely tread much more carefully as their misdeeds will no longer be overlooked. Peace and prosperity will be secured. Whether stateless terrorists or a state supporting such activities, both now know that the US will hunt them down and destroy them even before they act. In pursuing this strategy there can be no half measures and this fact will result in constant accusations of recklessness by the more faint of heart. We are pleased, therefore, that President Bush fully understands the long-term benefits of his plan and is pursuing it with resolve, clarity and, most importantly, prayer. **We urge our clients to keep President Bush, his advisors and our military personnel in your prayers as well.**

While it may be some time before we can ultimately determine if President Bush has been successful in his aggressive stance against evil, there can be little doubt that he has a big early lead. To be sure, trials are yet to come but many have previously underestimated this President and the strength of his convictions. We wish it were not the case, but there is indeed a time for war and a time for peace and **President Bush has judged rightly, in our view, that this is clearly a time for war. This is a war, however, that transcends the battle for a regime change in Iraq. It is not a war against a state but against an evil system of beliefs. Winning the war in Iraq has been vital but maintaining an advantage in what we call the "Worldview War" with radical Islam may be even more important.**

## RADICAL ISLAM - WORLDVIEW OF MASS DESTRUCTION

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*“He will be a wild donkey of a man; his hand will be against everyone and everyone’s hand against him, and he will live in hostility toward all his brothers”.*  
*Genesis 16:12 (NIV)*

How ironic it is that in an era where the US’s military supremacy is unmatched, the greatest threat to its security comes from among the poorest and most undeveloped nations of the world. The reason for this is the rise of a radical branch of Islam whose aims are world domination and the destruction of non-Islamic cultures. The tenets of this violent version of Islam have, to different degrees, been accepted by perhaps hundreds of millions of Moslems throughout the third world where poverty and hopelessness has allowed it to become a rallying point for those left behind by the world’s progress. In this malevolent strain of Islam, suicide attacks resulting in mass murder are celebrated as great victories and attackers are honored and promised rewards in the afterlife. *Appeasement, diplomacy, containment or any other attempt to cajole radical Moslems into a place where they will be less of a threat are but temporary measures. Their hate inspired desire to destroy their enemies, as Israel can attest to, never seems to diminish.* Even as the US and Israel enjoy triumphs in our efforts to remove leaders who incite their followers to destroy our cultures, we should fully expect ongoing and sometimes successful attempts to murder our people and wreak havoc in our economies. This is simply a fact of life in the 21st century and it is made all the more troubling by the possibility that such groups may one day have access to weapons of mass destruction. Therefore, winning the Worldview War against radical Islam should be the West’s ultimate goal and winning may need to be defined as keeping this enemy perennially off balance. Israel has already been engaged in this war for over 50 years and its progress and prosperity have not been thwarted. Nor should that of the United States and its allies. Establishing a democratic form of government in both Afghanistan and Iraq and organizing an economic platform for long term success will greatly aid the endeavor to convert these nations to a more modern mind set. Still, investors should anticipate that all such efforts to establish Western institutions and structures, which are fundamentally at odds with radical Islam, may be continuously attacked by at least a radical minority who are willing to kill others and die themselves to preserve their idea of Islamic culture. Perseverance and prayer will be the keys to victory in this Worldview War.

President Bush’s strategy of preemptive action is arguably the only strategy that will provide for both a favorable short and long-term result versus what would occur without a commitment to keep evildoers on the defensive. *We are currently winning this war and the potential for continued success appears good at this juncture. Still, increased diversification, particularly currency diversification, is advisable given the ongoing difficulty in assessing the magnitude of the terrorist threat. Such threats now seem small but that assessment could change quickly if it is ever discovered that terrorists have weapons of mass destruction at their disposal.*

## US CONSUMERS PRESS ON IN BATTLE AGAINST FORCES OF ECONOMIC WEAKNESS

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*“For God has not given us a spirit of fear, but of power and of love and of a sound mind”.*  
*2 Timothy 1:7 (NKJV)*

**T**here can be no denying that the global debate surrounding the US led coalition’s decision to go to war with Iraq created fear among investors and greatly contributed to the recent pause in the economic improvement that had finally shown signs of gaining a little momentum. We are now more than five quarters past the end of the recession but the economic recovery has thus far struggled to broaden beyond the interest sensitive sectors of housing and autos. Table 1 on page 3 highlights how weak this rebound has been relative to previous recoveries.

The primary reason for this sub-par performance has been weakness in business spending and declining inventories. *The consumer, which now accounts for a record 70% of total US economic activity, has been the only source of consistency for the US economy.* Despite rising unemployment, substantial declines in net worth, due primarily to stock market losses, and steadily falling consumer confidence consumers have continued to spend (see Chart 2 on page 3). Increased savings has moderated somewhat the growth rate in consumer spending but, for a record 44 consecutive quarters, consumer spending has risen. *While somewhat fearful due to the War, terrorism and economic uncertainty, we expect US consumers will be of a “sound mind” and*

*continue to spend modestly until their balance sheet improves and both equities and employment move higher.*

The key to improved economic growth can be found in the business and trade sectors of the economy. Business spending, after a long and sharp decline, seems to have turned upward along with inventories (See Chart 3). If this positive trajectory can be maintained, economic growth may improve to a more normal and consistent level. While factory capacity utilization remains low, corporate profits have improved and this, combined with low interest rates, has begun to free up funds for capital spending.

Table 1

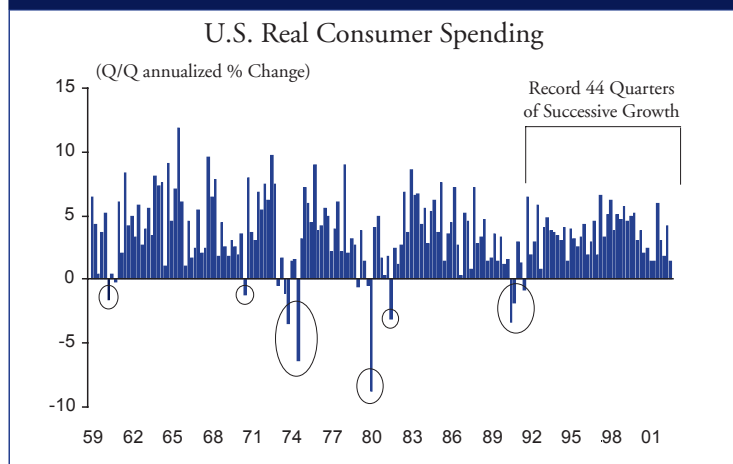
The State of the U.S. Economy One Year After Recession (% change from end of recession, unless noted otherwise)							
Recession Dates	Real GDP	Emp.	Housing Starts	Ind. Prod.	Capu Rate(%)	Ch. in 10-year (bps)	S&P 500
8/53 - 6/54	7.7%	3.9%	13.8%	13.8%	n/a	40	40.8%
9/57 - 5/58	9.5%	5.2%	25.8%	21.7%	n/a	139	33.5%
5/60 - 3/61	7.5%	3.0%	10.0%	13.3%	n/a	19	9.4%
1/70 - 12/70	4.4%	1.9%	21.2%	5.1%	80.7	-46	11.1%
12/73 - 3/75	6.4%	3.7%	38.8%	8.9%	79.2	-67	20.4%
2/80 - 8/80	4.3%	1.5%	-34.5%	6.1%	80.7	384	4.1%
8/81 - 12/82	7.6%	3.9%	29.5%	11.0%	78.0	129	18.7%
8/90 - 3/91	2.3%	0.1%	9.8%	3.7%	80.1	-56	7.6%
<b>Average</b>	<b>6.2%</b>	<b>2.9%</b>	<b>14.3%</b>	<b>10.5%</b>	<b>79.7</b>	<b>68</b>	<b>18.2%</b>
<b>Median</b>	<b>7.0%</b>	<b>3.4%</b>	<b>17.5%</b>	<b>10.0%</b>	<b>80.1</b>	<b>30</b>	<b>14.9%</b>
4/01 - 12/01	2.9%	-0.1%	16.9%	3.3%	75.7	-119	-27.5%

Source: Global Insight, Merrill Lynch

Aiding the transition of the economy to more balanced growth is strong monetary policy stimulus as well as fiscal policy stimulus. *We would not be surprised to see the Federal Reserve take new and innovative actions to boost liquidity and lower long-term interest rates if economic growth remains too low.* Also, President Bush's tax package, while toned down by the senate from his initial proposal, will still benefit both consumers and investors thereby spurring growth in the short run. More importantly, the dividend taxation relief component of the plan is sound long-term economic policy that should aid stock prices if implemented. Higher budget deficits caused by the plan and the war, however, may put upward pressure on interest rates and weaken the value of the dollar making foreign stocks more attractive.

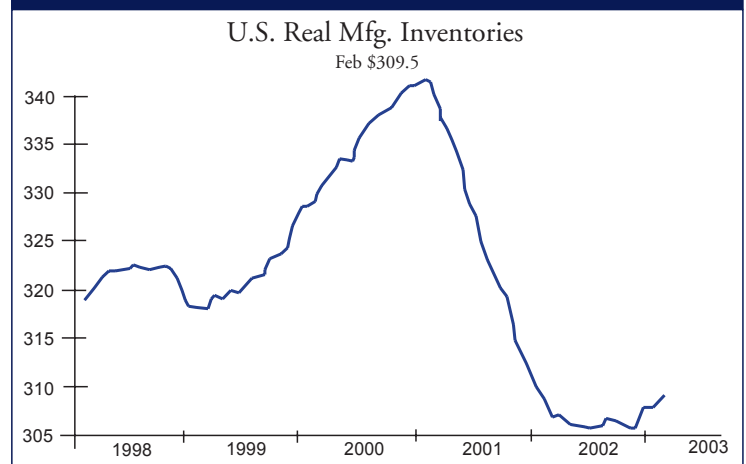
Finally, the economy should get a post-war relief boost as consumers and businesses alike move forward with less fear and greater confidence. The war spending itself will stimulate the economy and oil prices may decline further than they already have. *Overall, we expect that economic growth will improve from the low levels that will be seen in 2003's first quarter but we do not expect rapid expansion, as the adjustment process is ongoing in both the consumer and business sectors of the economy.* Inventory accumulation should also aid the advance in the economy but the trade sector may remain an offsetting drag as our principal trading partners, Europe and Japan, remain in low growth or no growth modes.

Chart 2



Source: Factset, Merrill Lynch

Chart 3



Source: ISI Group

**JAPAN AND EUROPE STRUGGLE TO ADVANCE, ASIA PROVIDES A STRONG LEFT FLANK**

*“We who are strong ought to bear with the failings of the weak”.*  
Romans 15:1a (NIV)

The Iraq War has also negatively impacted the economies of Europe. Already weak, the diplomatic battle prior to the war further undermined both business and consumer confidence. Europe’s economic problems, however, are primarily the result of slow reacting policy makers and structural problems. The European Central Bank has been well behind the Federal Reserve in reacting to the current bout of economic weakness. As a result, this weakness has been extended longer than need be and any recovery may be slower and more drawn out. Certain European states, such as Germany and perhaps France may very well sink into recession again and Germany may even succumb to a deflation much like Japan has been facing for many years. Even now, *it is not clear that the correct policies are in place to restore an adequate rate of economic growth, particularly in Central Europe.*

**Table 2**  
Regional Contributions to Global GDP Growth

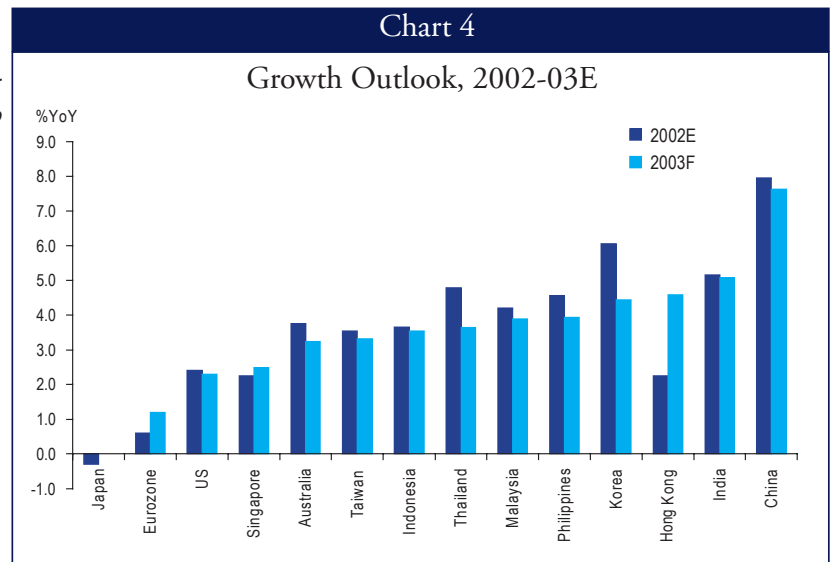
	Percent of Total	Consensus GDP Growth (%), 2003E	% Contribution to 2003 Growth
<b>World</b>	<b>100</b>	<b>2.3</b>	<b>100.0</b>
United States	32	2.7	34.4
Japan	12	0.4	0.0
Eurozone	21	1.4	11.1
Asia-Pacific Region	12	5.2	26.7
China	4	7.5	12.6

Source: IMF, Merrill Lynch

*Likewise, Japan continues to wallow in its numerous economic policy blunders.* Despite many purported reform attempts, Japan seems unable and/or unwilling to make the economic policy changes required to properly revitalize its economy.

Asia outside of Japan, however, continues to grow strongly primarily as a result of China’s influence. As can be seen in Table 2 above, this area of the world is expected to enjoy the most rapid growth in the world in 2003 and to account for 26.7% of the growth in world GNP this year. Japan’s contribution is expected to be zero while Europe will add less than half that of Asia ex Japan. *The US remains the largest contributor to world GNP growth as a result of both our large 32% weighting and a stronger economic growth rate than our weaker trading partners. Once again, it falls largely on the US’s shoulders to bear the failings of other regions and promote world economic growth.*

In chart 4 we provide a closer look at growth expectations for the Asian region versus the US, Europe and Japan. While the SARS epidemic and squabbles about North Korea’s antics may take the top off the short term forecasts, it would be surprising if Asian growth does not easily surpass that of the rest of the world over both the short and long term. Accordingly, our global and international portfolios are overweighted in this region.



Source: CEIC, Merrill Lynch

**US EARNINGS OVERCOME STIFF RESISTANCE, MARCH HIGHER**

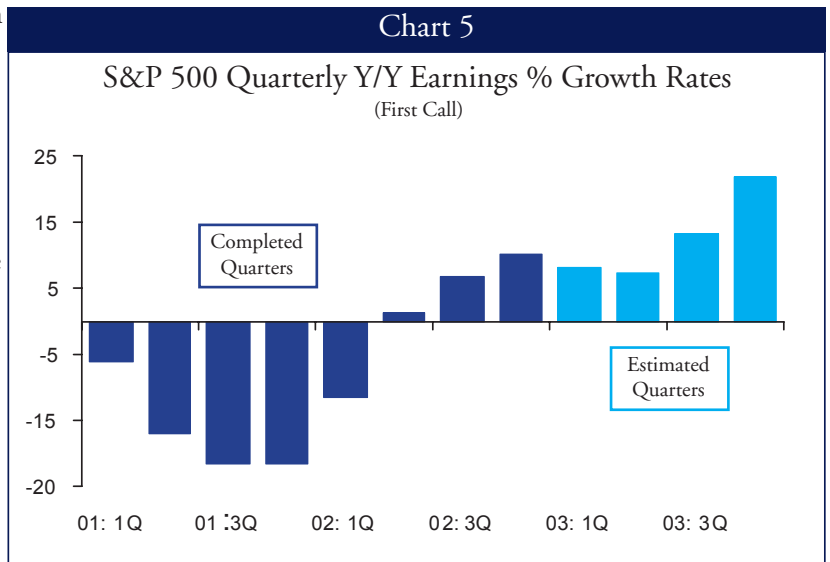
*“Do not be overcome by evil, but overcome evil with good”.*  
Romans 12:21 (NIV)

The uneven US economic recovery has produced a challenging environment for corporate executives. Sales growth has generally been weak resulting in the need to pursue other strategies to increase profits. Overcapacity and poor pricing trends have forced managers to drastically cut costs to preserve and/or expand profit margins. Lower interest rates have been a plus as this has allowed



for a reduction in interest expense. Massive write-offs taken in the past two years have also acted to reduce ongoing operational expenses but rising pension and option expenses have been an offset. *The rapid and strident response to the difficult conditions faced by corporate America coupled with a small benefit from a weaker dollar, has enabled the S&P 500's earnings to advance in each of the last four quarters* (see Chart 5, Q103, while still an estimate, will be positive). Moreover, this upturn is expected to accelerate in the later half of 2003. *What has been surprising is that stocks have failed to advance in anticipation of the upturn in earnings as they most always have done in the past.*

While the improvement in profits are admirable under the circumstances and reflect the sound strategies taken by management under trying circumstances, there continues to be debates about the veracity of earnings reported by US corporations and the use of operating earnings versus GAAP earnings or even "core" earnings as calculated by S&P. Much of the confusion may simply be "noise" that is not uncommon at the depths of bear markets. *We believe that most of the concerns about fraudulent earnings reports are now behind us as good accounting practices have now "overcome" the dastardly methods used earlier by a relatively few companies.* We also suspect that most market participants will eventually agree that the S&P 500 operating earnings figure most accurately reflects the earnings power of corporations and is the best means of measuring the profitability of the S&P 500. Table 3 contains earnings estimates using the different methods of measuring the profits of the S&P 500.



Source: ISI Group

**Table 3**  
S&P 500 Earnings Estimates

		2002*	2003	'03 vs '02 % Chg	2004	'04 vs '03 % Chg
First Call	Operating (top-down)	47.15	52.12	10.5%	55.50	6.5%
Consensus	Operating (bottom-up)	46.23	53.92	16.6%	61.47	14.0%
	Reported	31.00	38.00	22.6%	48.00	26.3%
Standard & Poors	Operating (top-down)	45.97	53.05	15.4%	56.68	6.8%
	Operating (bottom-up)	45.97	53.81	17.1%	NA	NA
	Reported	28.00	39.12	39.7%	44.42	13.6%
	Core	23.75	29.93	26.0%	NA	NA

\* 97% of companies reporting 4Q earnings

Source: ISI Group

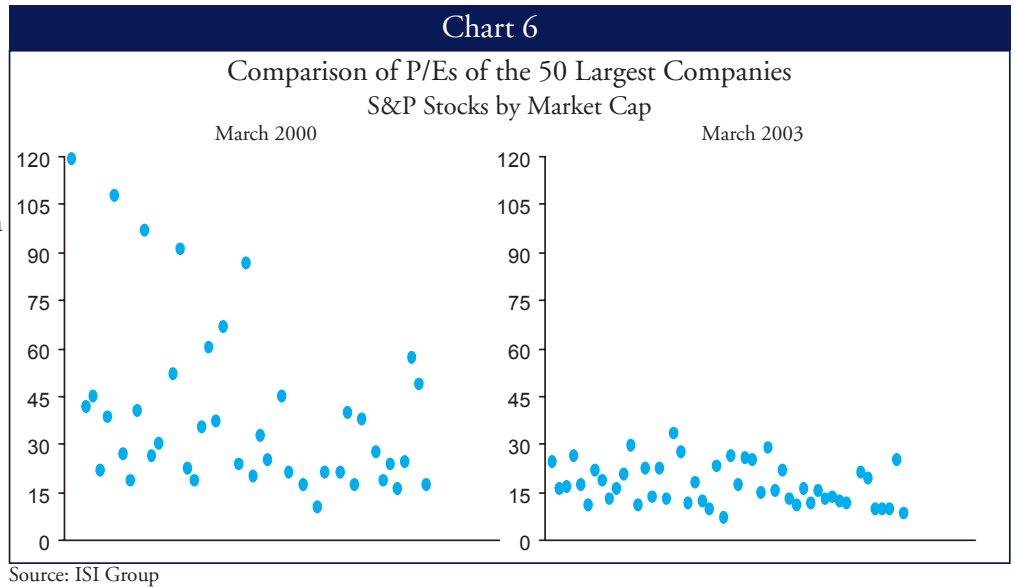
## VALUATION LEVELS REMAIN UNDER SIEGE

*"He who scorns instruction will pay for it".  
Proverbs 13:13a (NIV)*

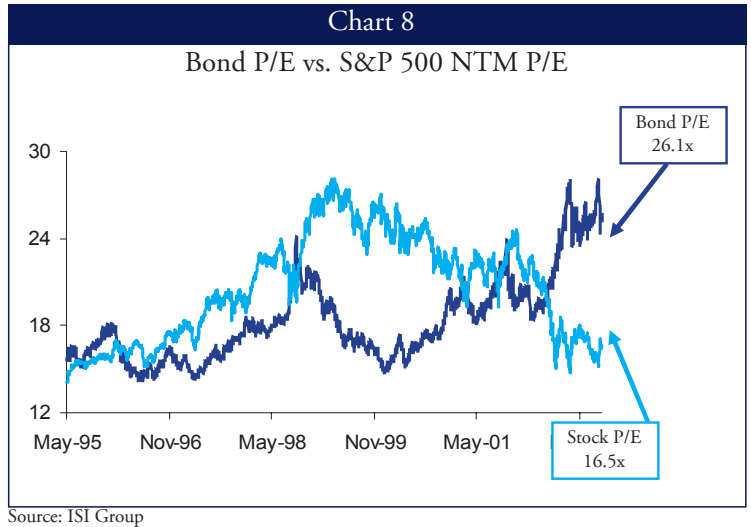
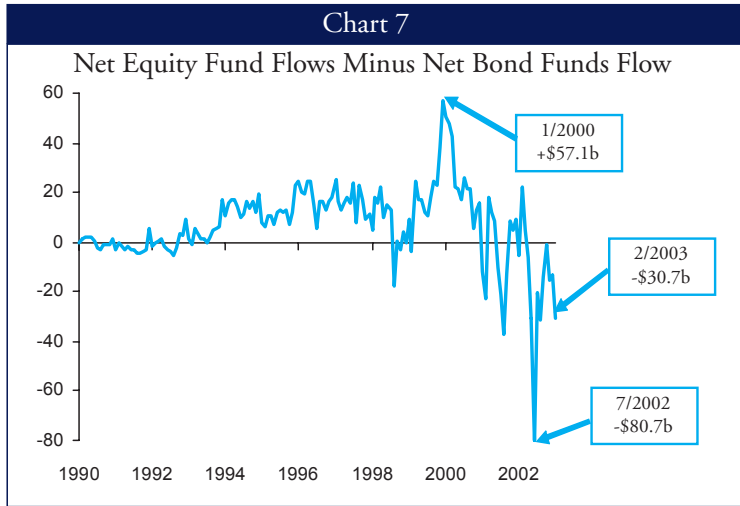
While almost all stocks have declined in value over the last three years, many have been fortunate to enjoy higher earnings even during this difficult period. Then why have the share prices of these stocks fallen? The answer is that *as investors have become progressively more fearful, they have been unwilling to pay the ridiculous prices they once did for a dollar of company earnings. This is called valuation compression and Chart 6 below highlights this process in action.* The left graph indicates the utter foolishness that existed in March of 2000 at the market peak and the right graph shows the more sensible valuations on the largest stocks at this time. The three-year bear market sucked almost all the hope out of investors and the sharply lower valuation levels reflect this dramatic change in attitude. Those who got caught up in the euphoria three years ago, however, paid a heavy price indeed for their lesson in market psychology.

Looking forward, it is not hard to envision how a little hope and encouragement might seep back into valuations and help propel the market higher. While the Worldview War may keep global tensions on edge, they are nevertheless bound to ease somewhat in the post Iraq War period. Lower oil prices, increased propensity to spend on the part of businesses and consumers alike, and

increased trade and travel should all be supportive of a more optimistic attitude after the war is over. Dividend and income tax relief may also serve to make equities more attractive to investors. A growing recognition that equities are no longer falling coupled with the microscopic yields on money market fund assets should help to move some of the huge amount of money that has been parked there into equities. Additionally, investors may begin to question whether bonds and real estate offer attractive returns from current levels and come to view equities as a more attractive long-term investment alternative. As seen in Chart 7 bond fund sales are now high indicating a contrarian opportunity for stocks just as the opposite was true in January 2000. Chart 8 also offers an interesting look at the relative valuation of bonds and equities. US equities are selling at 16-17x earnings. European and non-Japan Asian stocks are trading at 13-14x and yielding close to 4%. In an environment of low inflation and interest rates, some upside from these levels seems achievable. Significant advances might be possible when economic growth accelerates as this will do much to aid both future multiple expansion and favorable earnings revisions.



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## THE FOG OF WAR

*“Be joyful in hope, patient in affliction, and faithful in prayer. Share with God’s people who are in need”.*  
Romans 12:12-13 (NIV)

Following the psychological damage already inflicted on investors in the previous three years of declining share prices, the prospect of war, always unsettling, was too much for the market to bear in the first quarter. This despite the fact that there was near certainty that war would be engaged and that it would be won by the US led coalition. The war’s disruption to the world’s economies, aided and abetted by bad weather and SARS, has also placed in doubt once again the staying power of the fledgling economic recovery. Although the victory by coalition forces in Iraq may provide some relief for the world’s markets, investors will likely remain cautious in the short term until the fog of war has fully lifted. Of course, by the time the market battlefield becomes

as clear as a sunny day, share prices will have already advanced smartly. *To fully participate in any future capital appreciation requires stepping into the fog to purchase those stocks that are best positioned for long-term success. It may be that the fog grows denser before clearing but the probability of it eventually dispersing is high. Thus we recommend that investors be joyful in hope for better days, patient in affliction should those days tarry and faithful in prayer for our nation, President and military while we await the outworking of His will with regard to the Worldview War with radical Islam.*

*We should also share with God's people who are in need. One means by which you can achieve this goal most effectively is to explore the opportunities available to you through [www.MinistryWatch.com](http://www.MinistryWatch.com), a service provided by Stewardship Partners' non-profit affiliate Wall Watchers. This web site, which is visited 25,000 times each month by donors seeking to improve their giving, contains ministry profiles, Financial Efficiency Ratings, Transparency Grades and financial data on over 500 Christian para-church ministries. Through the ministry of Wall Watchers we trust that we can help you bless those Christian ministries who are doing so much to spread the good news of the gospel and meet the physical and spiritual needs of God's people.*

For those who might be interested in contributing to Christian ministries that reach out to Moslems with the gospel message, you may want to consider [MIO Frontiers](#) or [SAT-7](#). [MIO Frontiers](#) plants churches in Moslem countries while [SAT-7](#) beams the gospel via satellite TV to tens of millions of people in the Moslem world.

Information on both these ministries can be found at [www.MinistryWatch.com](http://www.MinistryWatch.com). [SAT-7](#), in particular, has dire financial needs at the moment. In addition to [www.MinistryWatch.com](http://www.MinistryWatch.com), there are also many other resources available to help Christian donors become more effective. I particularly recommend that you visit the following sites to find more information about being the best possible steward you can be of your giving:

[www.GenerousGiving.org](http://www.GenerousGiving.org)  
[www.Gatheringweb.com](http://www.Gatheringweb.com)  
[www.RoyalTreasure.org](http://www.RoyalTreasure.org)  
[www.Crown.org](http://www.Crown.org)  
[www.NationalChristian.com](http://www.NationalChristian.com)  
[www.ECFA.org](http://www.ECFA.org)

*All of us at Stewardship Partners thank you for your continued confidence in our ability to guide your portfolio through these turbulent times. As always, we invest your money with your Christian worldview in mind. Should you have any questions or comments about this Market Commentary or any other subject, please feel free to contact us. May the Lord bless you with His riches of wisdom and love as you grow closer to Him!*

## CHRISTIAN WORLDVIEW INVESTING (CWI) IN ACTION

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Stewardship Partners is a leader in the field of investing with a Christian perspective. Rusty Leonard, CFA, Stewardship Partners' founder and CEO, practiced this investment philosophy while managing over \$3 billion of assets as a portfolio manager from 1989 to 2000 with the Templeton organization. He also had the privilege of working directly with the world-renowned global mutual fund manager, John Templeton. *By employing a Christian worldview 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 that are engaged in sinful activities that bring physical and spiritual loss to our fellow man.* If Jesus were a carpenter in today's world, we believe he would pursue just such an approach in any investments he might have, due to His great love for His creation. Below you will find an example of both a company that we own in some of our client's portfolios that exhibits exemplary Christian character and one that we avoid in our desire not to be supportive of harmful enterprises. Furthermore, we carry out research into the character of the various countries we invest in on behalf of Stewardship Partners' clients. We believe that, in the long run, both countries and companies that most align their activities with biblical principles will achieve the greatest suc-

cess. The results of some of our research can be found below. Research on corporate business activities and global trends in areas of interest to Christians is carried out by an affiliate of Stewardship Partners, the Institute for Christian Worldview Research (ICWR) and our friends at American Values Investments.



The ICWR maintains a database on the corporate activities of nearly 1,700 public companies focusing on their involvement in alcohol, tobacco, gambling, abortion, pornography and non-marriage lifestyles. Should you desire a report from ICWR on companies you hold in your portfolio, please feel free to contact Sharon Swaringen by e-mail at [sswaringen@stewardshippartners.com](mailto:sswaringen@stewardshippartners.com). If you will simply provide us with a list of the companies you would like us to review, it would be our pleasure to produce a report for you that may be enlightening.

## DOLLAR GENERAL - SEEKING TO BUILD UP THE COMMUNITY THEY SERVE

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Dollar General is a neighborhood retailer that serves smaller markets and low-income areas through its 6,000 stores in 27 states. It has successfully grown its operations at a rapid rate over the last decade. The company's mission statement is simply "Serving others" and its values statement endorses integrity, hard work and mutual gain for all involved in the company. The company has won numerous awards over the years for its extensive community service and has given special attention to literacy and basic education programs in the communities it serves. Through these programs the company seeks to give back to the customers it serves by helping to improve their lives in the long term. American Values Investment also reports that the company has donated money to the YMCA, the Kentucky Boy Scouts and the National Conference on Christian and Jews among a wide array of other charitable entities. The founding family, the Turners, have also been known to be very philanthropic.

Dollar General's stock is currently owned in our Domestic and Global portfolios due to its good growth prospects and low valuation relative to its peers. That it also uses its position and profits to bless others and improve their skill set is something that attracts our attention as well!

## VERIZON COMMUNICATIONS - SPONSORING ABORTION, PORNOGRAPHY AND THE HOMOSEXUAL LIFESTYLE

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Verizon, headquartered in New York City, offers both fixed and wireless communications services to tens of millions of customers in the US and throughout the world. Unfortunately, the Institute for Christian Worldview Research (ICWR) also reports that it is a contributor to Planned Parenthood, the leading provider of abortions and the leading advocate for keeping abortion legal. Verizon also offers pornography, which often destroys families and has been shown to be linked to sex crimes, through a cable television operation. Furthermore, Verizon is a substantial sponsor of the homosexual lifestyle that the Bible clearly defines as sinful and which has brought serious health consequences, including death, to many who have engaged in such activities. The company has advertised in the gay magazine "The Advocate" and has committed hundreds of thousands of dollars from its corporate revenues to contributions to and sponsorship of homosexual organizations and events. Given its wide sponsorship of so many sinful activities, Stewardship Partners will not purchase the securities of this company for our clients. Being a part owner or profiting from such business activities would not comport with our desire to share the message of Jesus' love for mankind, to be a blessing to our fellow man and to restrain evil in our culture.

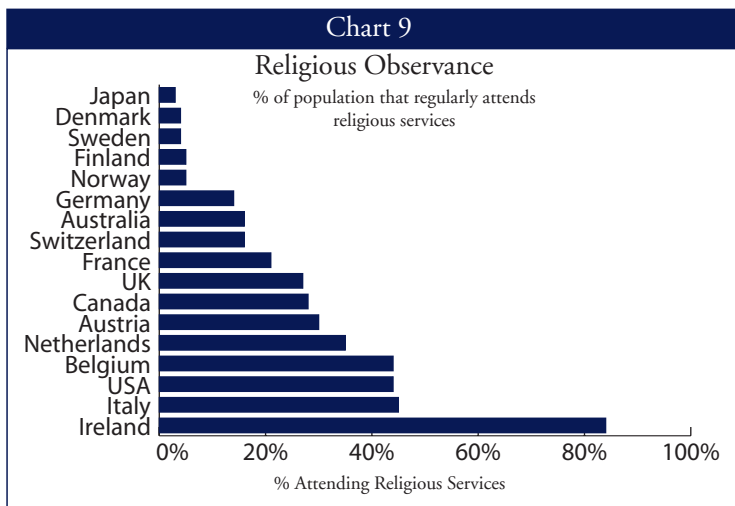


**GLOBAL TRENDS**

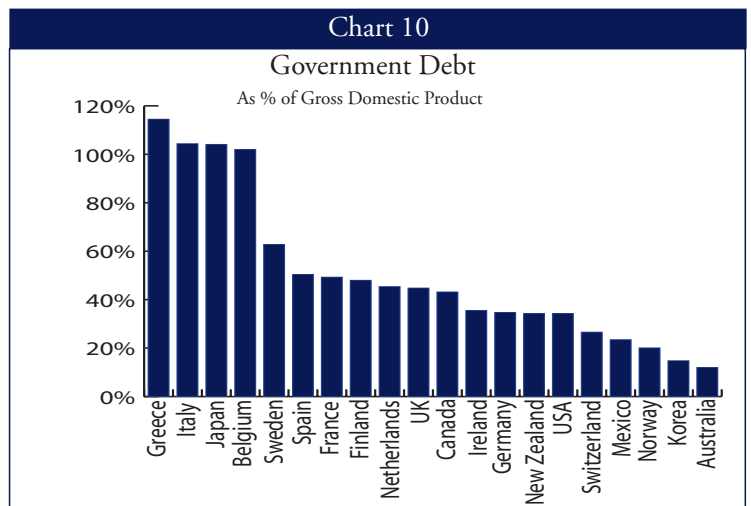
Another facet of our research at Stewardship Partners is measuring the character and spiritual atmosphere of the various countries in which we invest our client’s assets. John Templeton said that investing in countries where people are diligent and thrifty produces the best long-term investment results. We have extended this line of thought to include many other areas including religious observance (Chart 9) and the usage of government debt (Chart 10). In the end, we believe that countries, companies and individuals who follow Biblical principles will reap greater blessings than those that flaunt such wisdom.

Chart 9 depicts the level of religious observance across a variety of countries. While the quality of that observance is not measured, we can know that if there is little quantity, quality is not much of an issue! As can be seen, Ireland and Italy come in the first two positions, no doubt because of the strong Catholic traditions in those nations. The US scores highly as well despite its more diversified religious background. Nevertheless, less than 50% of the US population regularly attends religious services. European nations score much lower, particularly in the Nordic region. Japan is the lowest ranked country by this measure with virtually no interest in regular religious worship evident. Largely based on our analysis of the prevalence of long term investment opportunities, which can be influenced by our studies of the character and morals of a nation, we currently have no holdings in Japanese equities and are underweight European shares relative to the global and international indexes.

Another interesting piece of evidence that we monitor is the use of government debt. The greater the usage of debt, the greater risk a country is taking. Its economy could be subject to difficulty should an external shock, such as war, rapidly rising interest rates or energy prices, suddenly impact it. Moreover, the value of the currency of highly indebted nations often suffers thereby undermining the wealth of its citizens and foreign investors. Also, a high level of government debt indicates a lack of discipline. As can be seen in Chart 10, Greece, Italy, Japan and Belgium fare poorly on this measure while the US looks relatively good and South Korea and Australia are in the best position. The recent return to deficit spending in the US will cause government debt to increase but the overall level of debt is not as disconcerting as it is in many other nations. Partly due to concern about the high levels of government debt, we do not own any shares in the five countries with the highest level of government debt as shown in Chart 10. The low levels of government debt seen in Australia and South Korea, however, gives us a degree of comfort that the stocks we own in these countries have a firmer foundation for long term success.



Source: Taylor, Nelson, Sofres



Source: OECD

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

*While most of those reading our quarterly market commentaries will have already established a personal relationship with Jesus as their Lord and Savior, it is very likely that many will 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 Federal Reserve's valuation model or the problems in the Japanese banking system. 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. "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 to be united with us for 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 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 to 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 recognizing 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.*

## STEWARDSHIP PARTNERS

Stewardship Partners Investment Counsel, LLC  
PO Box 157  
Matthews, NC 28106-0157  
(704) 846-0458; fax (704) 846-0683

E-mail: [rleonard@stewardshippartners.com](mailto:rleonard@stewardshippartners.com)  
Web-Site: [www.stewardshippartners.com](http://www.stewardshippartners.com)

Rusty Leonard, CFA is Chairman/CEO of Stewardship Partners Investment Counsel, LLC, which provides non-discretionary investment research and advice to Centurion Alliance, Inc. pursuant to a management agreement. Rusty also functions as the Chief Investment Officer for Centurion Alliance, Inc.

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