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MARKET COMMENTARY

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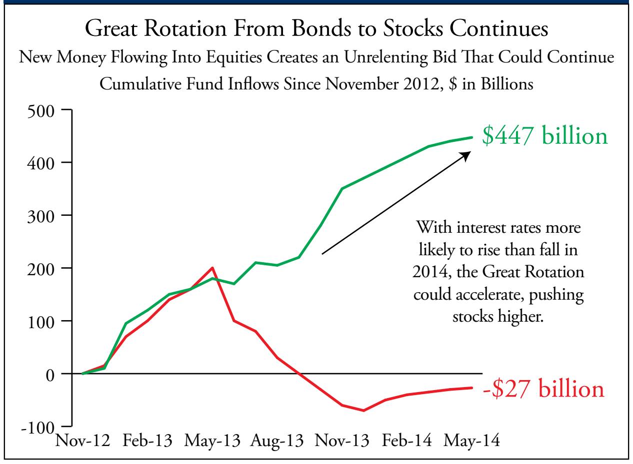
Equities Move Higher in the First Quarter as the Great Rotation Continues

"Many will give thanks … for the gracious favor granted us in answer to the prayers of many." 2 Corinthians 1:11b

After share prices roared ahead in 2013, some market observers assumed the market would suffer some profit-taking in early 2014. Equities did face a couple of brief, shallow downturns during the first quarter, but still managed to post positve returns in most markets and sectors (Table 1). Basically, investors and traders alike found it hard to lose interest in stocks when interest rates remained low, earnings stayed healthy and global economic growth was positive. While an unusually cold and snowy winter for most of the US temporarily trimmed economic activity, this proved to be only a minor distraction and the expected snapback in many US economic measures is now materializing. Apart from the generally good fundamental conditions for equities, also helping the market ignore such distractions has been a steady flow of money into equity funds (Chart 1). "The Great Rotation" from bonds (and other investments) into stocks continues to create a seemingly unrelenting bid for stocks. With the US economy showing greater signs of life as well as the continued tapering of the Federal Reserve's QE program, there is good reason to believe the threat of higher interest rates may lead to an acceleration in the Great Rotation in the months ahead. Investors selling to avoid losses in bonds will undoubtedly place at least some of the proceeds from their bond sales into equities. In our view, there is a small chance this could create a mini-bubble in share prices as the year progresses. If the outlook for earnings remains favorable, money may well flow into stocks from multiple sources as speculative activity increases.

Chart 1



Source: BofA Merrill Lynch Global Research, EPFR

Table 1

1Q14 Total Returns

US Indices	1Q14
S&P 500	1.8%
S&P 500 Value	2.3%
S&P 500 Growth	1.4%
NASDAQ	0.8%
S&P 400 (Mid Cap)	3.0%
S&P 600 (Small Cap)	1.1%
Treasury Bonds	1.6%
High Grade Corp. Bonds	3.0%
Gold	6.5%
Global & International Indices	
MSCI World	1.3%
MSCI EAFE	0.7%
MSCI Euro	2.1%
MSCI Far East	-5.1%
MSCI Japan	-5.6%
MSCI Emerging Markets	-0.4%
US Economic Sectors	
Energy	0.8%
Materials	2.9%
Industrials	0.1%
Consumer Discretionary	-2.8%
Consumer Staples	0.5%
Health Care	5.8%
Financials	2.6%
Information Technology	2.3%
Telecom	0.5%
Utilities	10.1%

Source: Bloomberg

Such speculative activity has already appeared in certain sectors of the market in early 2014. A relatively narrow group of stocks in the biotechnology and parts of the technology sectors started soaring to unusually high valuations as the quarter progressed. At the same time, IPO activity in these and other areas rose to worrisome levels. Toward the end of the first quarter and early in the second quarter, these stocks were pummeled as the speculative excesses were quickly punished. Many of the more popular "momentum" stocks fell by more than 20% in short order, even while the fundamentals of these stocks remained strong. We believe the popping of this mini-bubble was actually a healthy development for the market. Part of the reason for the quick correction was, once again, irrational behavior by hedge funds which had driven these stocks to silly heights. As the stocks started to weaken, these funds had to rapidly unwind their leveraged, oversized bets, thereby accentuating the decline. Meanwhile, most stocks were neither overvalued nor overowned by speculating hedge funds and had only slight sell-offs. Based on early reports, hedge fund performance in the first quarter was once again generally dismal. Given our belief that hedge funds have greatly contributed to the abasement of the financial markets over the last 15 - 20 years, we remain hopeful investors will soon begin to abandon these "investments", thereby limiting the corrosive effect hedge funds have on our capitalist system. At some point, the poor returns have to lead to a search for a better alternative. If the alternatives incorporate a longer term focus as well as more sensible fees and manager compensation, it should be a big positive for the financial markets, Main Street and even Wall Street. Everyone wins when specualtive activity and greed are minimized.

Fortunately, Stewardshp Partners' portfolios did very well during the quarter. All our growth-oriented portfolios turned in very attractive results as our stock selection drove our good returns. As we expected, Japan's share prices corrected and the emerging markets began to improve late in the quarter. Our more defensive portfolios also did well as interest rates actually fell during the first quarter, aiding bond returns. It is always good to get the year off to a fast start and we are very thankful for these good results.

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Global Economic Trends Are Encouraging

"For I will restore the fortunes of the land as they were before, says the LORD." Jeremiah 33:11b

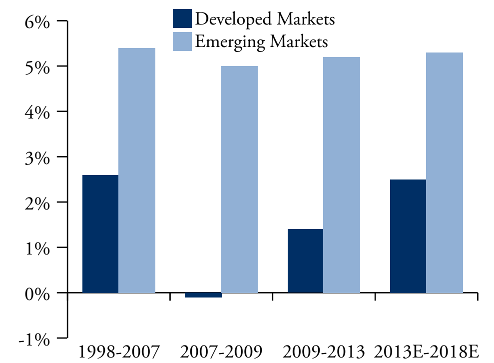
The outlook for the global economy continues to brighten. Growth, while still lower than normal, seems to be accelerating. Inflation is largely under control and the greater risk in some regions, notably Europe, is actually deflation. Interest rates remain low and budget deficits have shown significant improvement. Taken together, these conditions should give investors a degree of comfort which has not been present since the Great Crash in 2008. While it would still not take too much to reverse these favorable trends and quickly place the world back at the edge of a scary economic precipice, the chances of this occurring now seem low relative to that seen in the last five years. As the risk of catastrophe recedes, the financial markets should continue to benefit. Moreover, any downturns in share prices are likely to be shallow and short if these favorable conditions remain largely unchanged as corporate earnings should move higher. After many years of residual fear following the 2008 crash and the all too close call with the European financial crisis in 2011, we can be thankful to finally be able to enjoy more normal, and hopefully, durable economic conditions.

Chart 2

Developed Markets' Growth Returning to Normal

Emerging Markets' Economic Growth Largely Unaffected by the 2008 Crash

Real Annualized GDP Growth Rates Over Pre- and Post-Crash Periods



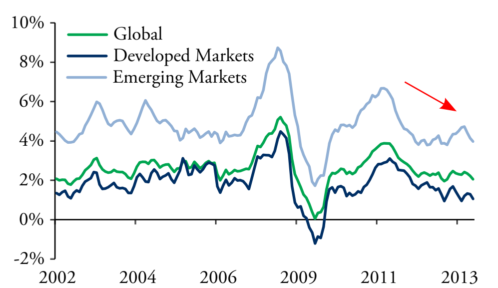
Source: BofA Merrill Lynch Global Research, IMF

Chart 3

Global Inflation is Low and Falling

Deflation More of a Threat, Especially in Europe

Consumer Price Indices (%)



Source: Haver Analytics and BofA Merrill Lynch Global Research

During the recovery from the debacle in 2008, one missing aspect has been faster economic growth. The hit the developed market economies took from the crash seriously tarnished their growth ability as financial systems were not functioning properly. As a result, growth could not be financed in the typical manner and the efforts by governments to support economic growth simply could not fully replace the vibrant growth generated by a well-oiled, market-based financial system. Chart 2 highlights that economic growth is finally expected to accelerate to more normal levels in the next five years. Part of the reason for this is the developed world's banking system has been able to largely rebuild its capital and is once again prepared to lend normally. Emerging market economic growth rates surprisingly suffered little during the post-crash economic malaise due to rapid government policy responses and financial institutions that largely avoided foolish lending going into the crash. With their financial institutions still intact, the emerging markets were able to maintain economic growth while the developed world faltered.

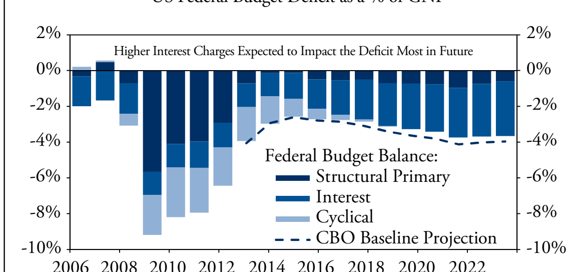
Naturally, as economic slack is removed from the global economic system and the world begins to function normally again, one concern which quickly arises is the threat of inflation. Many doomsayers have been screaming about impending inflation for years due to the massive government fiscal and monetary stimulus efforts. They could not have been more wrong as inflation has never even come close to being a problem. Even now, as things do seem to be returning to normal, there apparently is still sufficient unused labor and productive capacity in the global economic system to keep inflation at low levels. Moreover, the current inflation trend is actually down (Chart 3), leading many to worry more about the threat of deflation, particularly in Europe. This low level of inflation, or in some cases the threat of deflation, gives central bankers plenty of room for policy maneuvering to help keep economic growth accelerating towards more normal levels. The new head of the Federal Reserve, Janet Yellen, has been fortunate to take over the reins in such an attractive environment. In Europe, there is a strong possibility the European Central Bank (ECB) will soon implement QE or some other form of stimulus to reverse the deflationary trend there. As the labor and industrial markets begin to tighten over time, inflation is sure to eventually return. For the moment, however, low and declining inflation throughout the world is a very favorable circumstance for investors.

Chart 4

Good News! The Budget Deficit Is Much Better

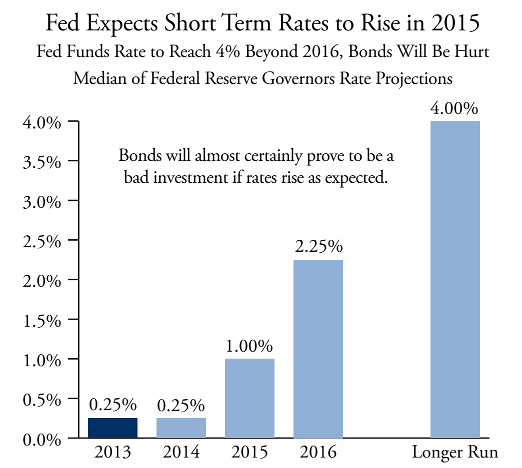
Deficit Should Remain Below 4% Until 2023

US Federal Budget Deficit as a % of GNP



Source: Congressional Budget Office. Goldman Sachs Global Investment Research

Chart 5

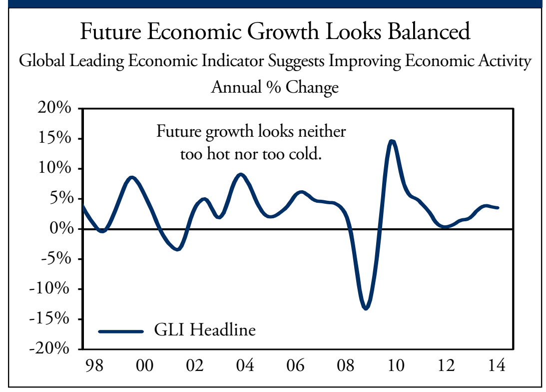


Source: Bloomberg

Another big positive for investors has been the rapid improvement in the US federal budget deficit (Chart 4). This improvement is expected to continue into 2015 before starting to slowly worsen again. The main cause of the slight deterioration in 2016 and beyond is the expectation for higher levels of interest rates. As the economy recovers and the extraordinary accommodation the Federal Reserve has put in place through ultra-low interest rates is no longer needed, the federal government will necessarily face a higher interest bill. This is all the more true because the US Treasury did not take advantage of this period of lower interest rates to lock in low interest costs by extending the maturities of their debt. So as rates move higher, it will feed through pretty quickly to higher costs to finance the US debt. Even so, if the current projections are correct (and they often are not), the US deficit will remain below 4% of GNP until 2023. While this is far from ideal, it is not a disaster. Moreover, the Tea Party's influence in Congress can be partly credited with the rapid recovery in the deficit. Should the Republicans win back control of the senate in November, perhaps there is a chance government spending could be brought under even greater control.

As growth accelerates and leads to an eventual jump in inflation, interest rates, particularly short term interest rates, are sure to rise. Chart 5 portrays the forecasts of the Federal Reserve for the federal funds rate. As can be seen, by 2016, the Fed expects short term rates to rise 200 basis points. Even at this level, however, real interest rates will still be near zero. Over the longer term, the Fed expects short term interest rates to rise to a more normal 4% level. As this transition to higher rates occurs over the next 3-5 years, bonds are likely to prove to be a poor investment. Unless something occurs to slow this trend towards interest rate normalization down, the impetus to move out of bonds and into stocks will remain strong.

Chart 6



Source: IMF, National Sources, Goldman Sachs Global Investment Research

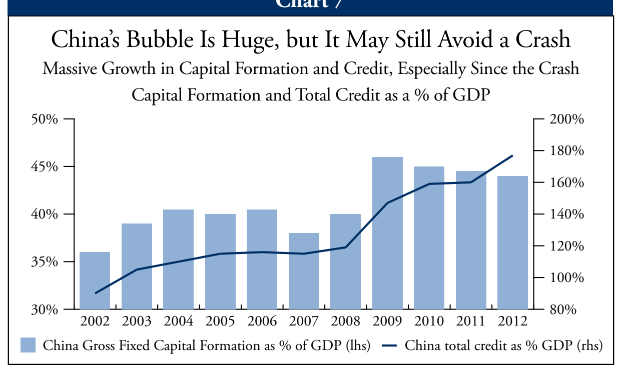
While expected economic growth is improving, at the moment it does not appear likely to accelerate too quickly. Chart 6 presents continued moderate improvement in the Global Leading Indicator. There is no suggestion of future economic overheating in this indicator at this time. If growth can improve at an even pace and interest rates and inflationary pressures also return to more normal levels at a gradual pace, we suspect equity prices will benefit from these transitions to more ordinary conditions. Fixed income securities and real estate may suffer some as rates reset higher, but equities and commodities should perform well as the global economy leaves the crisis years behind.

Could China's Bubble Pop and Ruin the Recovery?

"A person's own folly leads to their ruin, yet their heart rages against the Lord." Proverbs 19:3

Just five years after the S&P 500 hit its low point in March 2009, remarkable progress has been made on restoring the vitality of most banking systems, thereby setting the stage for a normalization of economic activity. At this point, the risk of quickly backsliding into renewed economic turmoil has been greatly reduced. Geopolitical developments, however, are always a threat to global peace and prosperity. Unfortunately, the risk of significant, market impacting warfare has risen recently to unexpected levels. Putin's confiscation of Crimea and, more importantly, the threat he may extend his land grab further is a potentially very dangerous development. Israel may at any time decide to launch an attack on Iran that could lead to a wider conflict in the Middle East, potentially disrupting oil supplies. Even China has engaged in disturbing diplomatic skirmishes over territorial claims to remote, insignificant islands controlled by Japan and the Philippines. While such disconcerting developments bear close attention, there is little reason at this point to give undue weight to the possibility of meaningful conflict erupting.

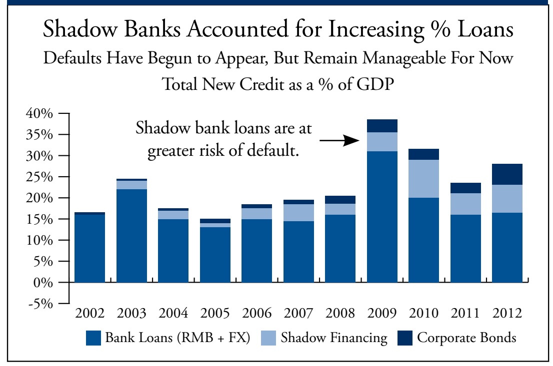
Chart 7



Source: Global Insight, Haver Analytics, MSIM GAA investment team

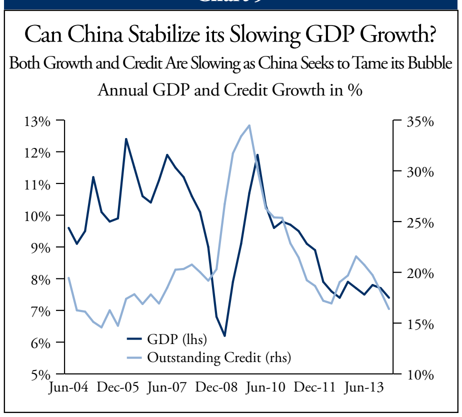
On the other hand, China still represents a potentially serious threat to the global economy's well-being. There is really no debate about the bubble China has created in its economy; it is just a matter of how it will be resolved. Chart 7 indicates the massive increase in both capital investment and debt, especially since the crash in 2008. If such rapid expansion of capital and debt were not to end badly, it would probably be one of the few times in history trouble was avoided under such circumstances. In fact, China's capital spending and debt were already growing at high rates prior to the Great Recession. The mind-numbing acceleration in both categories subsequent to 2008 simply made the situation much worse. Gradual accumulation of a heavy debt load often tends to be more manageable than rapid increases in debt. Unfortunately, China's debt build-up has not only been very rapid in recent years, a good portion of that new debt came from a dubious source, its surging shadow banking system (Chart 8). As 2014 began, the first evidence of sizable bad loans in China's shadow banking system began to appear. Further defaults are beginning to occur in the industrial sector where bad banking practices led to many entities being able to obtain loans for the same collateral several times over. So far, the problems that have arisen have not triggered a loss of confidence in the system or anything like a systemic collapse of China's financial system. Indeed, China's banks report bad loans at only slightly above 1% of total assets and loan loss reserves are more than twice this level. The only problem is that few outsiders believe such statistics accurately portray the reality of the situation. With several massive "ghost cities" having been built, there can be little doubt that billions of dollars of losses, if not more, have been incurred by some developers, bankers and/or land buyers. It is also well known that local governments participated in many foolhardy development projects. There is virtually no doubt China's economy is facing several bubbles which it must carefully unwind.

Chart 8



Source: Global Insight, Haver Analytics, MSIM GAA investment team analysis

Chart 9



Source: Bloomberg BloombergBriefs.com

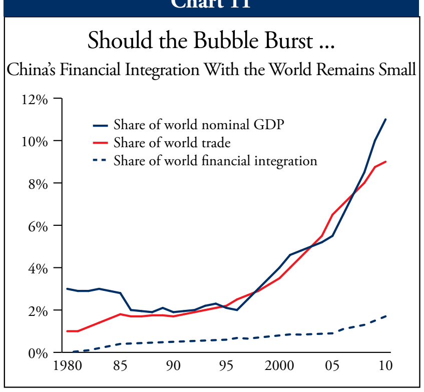
Can these bubbles be unwound in an orderly fashion while the Chinese economy continues to grow? Already, GDP growth has slowed considerably as the expansion in outstanding credit has decelerated sharply (Chart 9). The question now is whether these decelerations will intensify and eventually turn into uncontrolled, destabilizing contractions in economic activity. Recent evidence suggests China's economy slowdown is moderating, but it is simply too early to be sure policymakers will be able to manage the needed massive adjustment without a full blown crisis unfolding. Given the government's ability to exert control over key parts of the economy as needed, the willingness of the government to misrepresent key data, and the country's still highly undeveloped financial markets, China has a better chance than most countries of working out of its bubble slowly without having to endure a crushing blow to its economy.

Chart 10

Source: Bloomberg BloombergBriefs.com

One way we can know the Chinese policymakers are taking their predicament seriously is the recent weakening in the value of their currency (Chart 10). For a long period, the Yuan remained on a consistent strengthening path at the high end of the range set by the government. Early this year, however, the Yuan was allowed to quickly weaken to the low end of the previous range and a new wider range was introduced. This intentional weakening of the currency is clearly an effort to stimulate exports and hinder imports as a means of boosting the nation's economic growth. We strongly suspect the Yuan will weaken further in the months and years ahead as China seeks to unwind its massive bubble at a slow, controlled pace. While such weakening is a necessary component to correcting the excesses while maintain slower economic growth, it is insufficient by itself to avoid bigger trouble. Therefore, the government is also undertaking other programs to stimulate the economy and we suspect much greater efforts may be needed in the future. This will be a multi-year process and it will be easier to accomplish if the rest of the world continues upon its recovery path, as we suspect it will.

Chart 11



Source: Financial Times, IMF, Bank of England

Should China fail to avoid an economic collapse, it would undoubtedly negatively impact the world's financial markets and the global economy, at least initially. China represents about 10% of world GDP and slightly less than that in terms of world trade. Moreover, it is not heavily integrated with the rest of the world from a financial perspective (Chart 11). Accordingly, any negative impact coming from a China economic collapse may prove to be less significant than many now believe. Our best guess at this time is China will be able to avoid a systemic collapse, but it is only a guess. More likely is an extended Chinese economic slowdown which will help keep global inflation low.

Modest Gains Possible in the US, Better Returns Overseas

"Instead, they were longing for a better country—a heavenly one ..." Hebrews 11:16

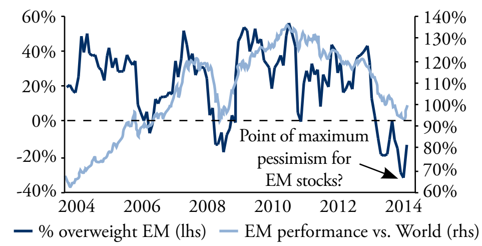
Emerging markets stocks have been under intense pressure for several years despite economic growth being maintained at high levels, corporate profits performing well and valuations becoming increasingly attractive. This perverse behavior may be traceable, at least in part, to investors' growing concerns about the potential for the largest emerging market, China, to implode. Had this happened (or if it happens in the future), all emerging market stocks will likely be held guilty by association and will suffer a sharp decline whether it is justifiable or not. Chart 12 highlights the underperformance of the emerging markets since late 2010 as this fear played out. It also shows the record level of underweighting emerging market stocks had in the average institutional investor's portfolio as of February. With some signs of stability in China coupled with the extreme undervaluation of emerging market stocks (Chart 13), the emerging markets index staged a big rally in March and institutional investors significantly reduced their underweighted position. This may be the precursor to a long overdue, favorable multi-year move in emerging market equities. Clearly, there will need to be substantial buying of emerging market stocks to return them to the more normal overweighted position these shares have enjoyed for most of the last decade. As QE in the developed markets recedes (which had also caused investors to steer away from emerging markets where no QE was needed due to better growth) and China slowly steers away from disaster, the highly attractive combination of good growth and very low valuations in the emerging markets stands a very good chance of drawing investor's attention. Unless China takes a turn for the worse, we would be surprised if these stocks were not among the best performing areas of the global market in the next five years.

Chart 12

Emerging Market Stocks Stage a Big Turnaround

Investors Finally Increase Exposure to the EMs and Performance Jumps

Asset Allocation to EMs and the Relative Performance of EMs



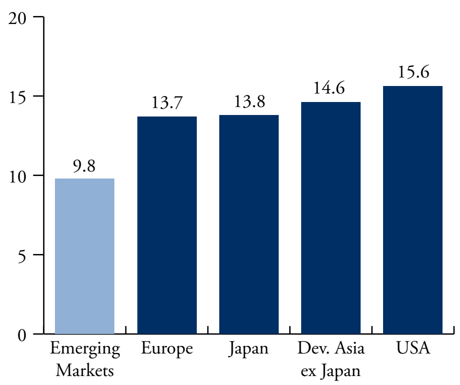
Source: BofA Merrill Lynch

Chart 13

No Bubble Here!

Emerging Market Stocks Remain the Cheapest in the World

12 Month Forward P/Es for Various Regions



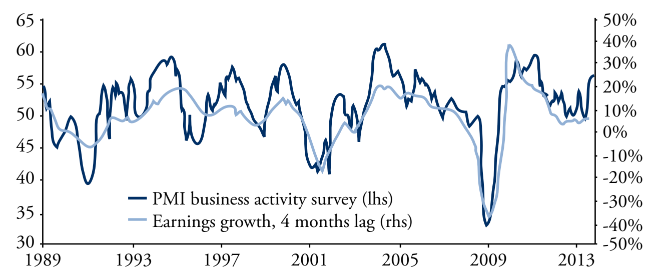
Source: MSCI, Bloomberg

Outside of many smaller biotech shares and social media related stocks which still sport extended valuations even after the recent pullback, valuations in the US still fall into the reasonable range. Nevertheless, while even higher valuations on US stocks could be justified given the level of interest rates, we believe earnings growth will be largely responsible for rising US share prices for the foreseeable future. Should the small chance of a bubble forming in US equities, as a result of the Great Rotation away from bonds and into stocks, actually be realized, then we would expect to see a significant jump in equity valuations. We doubt such a trend would get too far along, however, without the Fed doing its utmost to undermine such a bubble. Even so, the outlook for earnings growth may end up being better than many now think. We believe there is a good chance US and global economic growth may surprise on the upside over the balance of 2014, propelling corporate earnings to higher than anticipated levels as well. Chart 14 indicates just such a pop in corporate earnings is likely. If this turns out to be the case, there is at least some additional modest upside in US stocks. Share prices outside the US may benefit from the US growth and corporate earnings leadership and are not as constrained by valuation considerations. While the current strengthening trend in the US dollar may undercut the returns in foreign stocks to some degree, foreign equities may well post better returns than those in the US, with the possible exception of Japan.

Chart 14

PMI Surveys Suggest Stronger Future Earnings

At Current Valuations, US Stocks May Need Improved Earnings to Move Higher



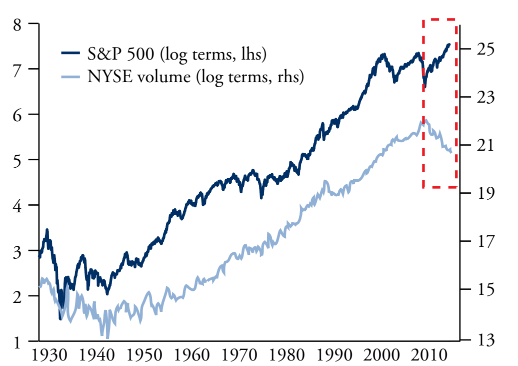
Source: J.P. Morgan Asset Management, Institute for Supply Management

One of the oddities of the bull market in the US over the last several years is that it has occurred while trading volume has been falling, the first time this has ever happened (Chart 15). We believe this fall-off in trading volume reflects reduced high frequency trading (HFT) and Main Street abandoning Wall Street. Recent data, however, indicates Main Street is starting to warm up to stocks again, which may lend further support to US stocks. Meanwhile, HFT is finally coming under increased regulatory scrutiny which may finally eliminate its current unfair advantages over other investors.

Chart 15

Bull Market Backed by Falling Volume?

Main Street Abandoning the Market and Lower HFT Creates Trading Drop



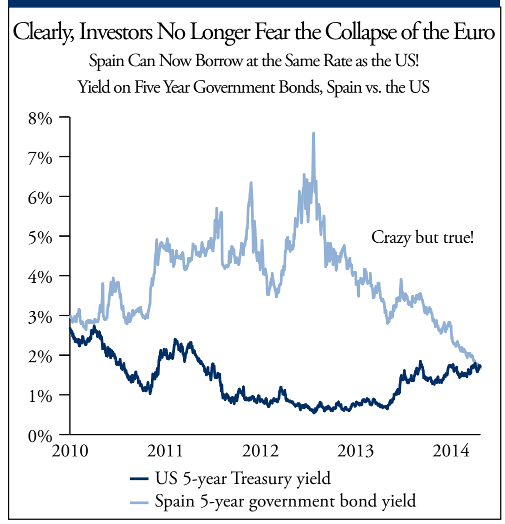
Source: EcoWin, DB, BusinessInsider.com

More Normal Economies and Markets Reduces Risk

"The end of a matter is better than its beginning, and patience is better than pride." Ecclesiastes 7:8

Last quarter we noted how many regulatory and criminal actions were taking place to help bring at least some degree of fairness back to the financial markets. This has continued so far in 2014 with some action taken against firms, individual traders or whole groups of traders such as the High Frequency Traders. We had highlighted these problems years ago, but we are very happy to finally see movement from the regulators and prosecutors. While we never expect to see complete fairness in the markets, there is little doubt the degree of criminality and abuse seen in recent years was extreme. Even Goldman Sachs is withdrawing from HFT and is considering eliminating what are known as "Dark Pools" where it executed trades discreetly, and some wonder if they did so fairly, on behalf of its clients. With "bad actors" now on the run, it is good for investors and for capitalism generally. As markets function incresingly normally, the benefits will be widespread.

Chart 16



Source: EcoWin, DB, BusinessInsider.com

One of the more remarkable indications of a return to normalcy in Europe is the rapid decline in interest rates in Spain and other nations previously referred to as the "PIIGS". As shown in Chart 16, Spain can now borrow at the same rate as the US for 5 year bonds. Actually, this is not normal as there is no way such low rates can be justified for Spain based on the underlying fundamentals. Nevertheless, it is an indication the previously feared destruction of the Euro is no longer something investors believe will occur. If the Euro has regained investors confidence, this clearly indicates the threat of financial calamity has fallen dramatically. As a result, the environment for long term investors is now more favorable. Nevertheless, we do not expect Spanish bond yileds to stay at the same level as those in the US over the long run.

Chart 17

Source: MSCI, FactSet, Goldman Sachs Global Investment Research

Historically, value stocks had tended to outperform growth stocks over the logn run. With the rise of hedge funds and HFTs, this tendency had broken down. It may be no coincidence that value stocks made a big recovery just as investigations into HFTs began in earnest in early March (Chart 17). This sudden reversal in fortune for growth stocks also caught the hedge funds out of position, leading to bad performance for many. It is hardly clear at this point this will be a durable trend but if the dominance of hedge funds and HFTs does actually wane, fundamental analysis like we perform at Stewardship Partners may benefit. We believe these trends are one reason why we achieved good investment results in 2014's first quarter.

After last year's very strong equity returns as well as the positive results seen so far in 2014, some may conclude a correction is inevitable. While a short term decline in share prices is inevitable, history suggests the full year has a very good chance of producing good returns. Chart 18 reveals positive returns were earned in years following a 20% or better return in 68% of the cases. The average return amounted to 8.4%, which was higher than the 7.9% average for the entire 1924-2013 period. Accordingly, investors should not be excessively fearful of a extended market downturn in 2014. A return to normalcy in so many economies and markets also argues against expecting a nasty sell-off.

Table 2

Stocks Perform Well in Year After Performing Great

Return on the Dow Jones in Year After It Rose 20% or More

Year	Year Return	Next Year Return
1924	26.0%	30.0%
1925	30.0%	0.3%
1927	27.7%	49.5%
1928	49.5%	-17.2%
1933	63.8%	5.4%
1935	38.5%	24.8%
1936	24.8%	-32.8%
1938	27.7%	-2.8%
1945	27.0%	-8.1%
1954	44.0%	20.8%
1955	20.1%	2.3%
1958	34.0%	16.4%
1975	38.3%	17.9%
1983	20.3%	-3.7%
1985	27.7%	22.6%
1986	22.6%	2.3%
1989	27.0%	-4.3%
1995	33.5%	26.0%
1996	26.0%	22.6%
1997	22.6%	16.1%
1999	25.2%	-6.2%
2003	25.3%	3.1%
Avg.	**31.0%**	**8.4%**

Source: Ritzholt Wealth Management, BusinessInsider.com

Following five years of sometimes harrowing markets, investors can be forgiven for excessively focusing on potential downside risks. Such risks, of course, are always present. But we are encouraged that downside risks, outside of China, now seem to be minimized. Even Obamacare is temporarily less threatening given the president has essentially already repealed the most troubling aspects of it. While staying attentive for unexpected negative surprises, we remain hopeful 2014 will reward patient, thoughtful investors with worthwhile returns.

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

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

Below you will find an example of both a company exhibiting exemplary attributes, Biogen Idec, and one we avoid, IBM. Biogen Idec is a holding in some of our Stewardship Partners portfolios while we actively avoid ownership in IBM 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 – Biogen Idec – Caring, Integrity and Generosity

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

Founded in 1978 by leading scientists in Switzerland, Biogen Idec is the world's oldest independent biotechnology company and is still one of the world's largest. Headquartered in suburban Boston, the company has offices around the world and a direct commercial presence in thirty countries. Distribution agreements mean its drugs are available in an additional sixty countries. Roughly 6,000 employees work for the company. Through its cutting edge focus on science and medicine, Biogen Idec discovers new medical compounds, develops these into commercial drugs and markets these to patients around the world. The company is best known for its multiple sclerosis franchise where it markets a variety of treatments for this disease. Biogen Idec also developed a medication to treat non-Hodgkin lymphoma and rheumatoid arthritis. Crohn's disease is another malady which Biogen Idec's products seek to minimize, allowing patients to live normal, productive lives. The company's clinical focus is on neurodegenerative disorders, hemophilia and autoimmune disorders. In addition to the many products Biogen Idec has already been able to successfully commercialize, the company also has a vibrant new product pipeline which promises to enrich the lives of many in the years to come. Currently, the company has eighteen potential new drugs in its pipeline targeting diseases like Alzheimer's, lupus, neuropathic pain, spinal muscular atrophy as well as pursuing better medications for muscular dystrophy and non-Hodgkin lymphoma. Studies indicate that only one of every 10,000 new compounds discovered ever gets approved as a new commercial drug and that it costs an average of $1.2 billion to develop a drug and can take 10-15 years for a new drug to reach the market. Biogen Idec excels not only in developing and commercializing new medications but also in manufacturing them. Manufacturing drugs is an extremely delicate process and the company's state-of the art facilities have garnered Biogen Idec praise.

Biogen Idec's corporate credo is admirable: "Care Deeply, Work Fearlessly, Change Lives". The company's vision states: "Through excellence in all that we do, Biogen Idec will become the most effective and most admired company in the biopharmaceutical industry, providing meaningful benefits for patients and exceptional value for shareholders". While this is a vision that is almost impossible to fully achieve, it contains worthy goals. Moreover, the company has come close to, if not already met, some of its lofty vision. Moreover, the company has a list of core values which are fully explained on its website. The first is "We respect patients". The company describes in detail how it expects it employees to accomplish this and even gives pointers for what to watch out for. In the segment addressing the need to put patients first, the company's workers are urged to be on the lookout for: "Pressures from colleagues or supervisors to cut corners on safety, quality or standards" and "Temptations to tell others what you think they want to hear rather than the truth". Each of the company's core values contains helpful advice along these lines. Some of the other core values include: "we are fair and honest", "we are responsible for our communities", "we never compromise our integrity" and "we are transparent", among others. While such core values are easy to state and harder to live out, we have rarely seen a company so thoroughly explain their values and how to "walk the talk" as Biogen Idec has done. While we don't have space to highlight it all here, Biogen Idec's corporate governance approach also is well-structured.

More than most companies, Biogen Idec's employees are their most important assets. Clearly, the accumulated scientific knowledge and capabilities found in the company's staff is something management and shareholders want to protect. By offering employees a wide range of benefits, Biogen Idec tries to help them minimize the many distractions life can throw at us and keep them focused on achieving scientific breakthroughs to benefit patients. Attracting the best scientific talent requires competitive remuneration packages and the company achieves this through both attractive salaries and inventive bonus programs. A 401(k) plan and an employee stock savings plan are also offered, along with access to financial planners. At the same time, Biogen Idec recognizes much more than monetary rewards are required to maintain a healthy and productive workplace. Accordingly, its list of benefits is very extensive. Naturally, a variety of health insurance plans cover the company's employees with medical, prescriptions, dental and vision all covered. Additionally, two additional services are offered: Best Doctors helps employees identify top-notch physicians when they are confronting complex medical issues and Health Advocate comes to the aid of employees trying to work through the details often complicated health and related insurance issues. The company also promotes healthy living through on-site fitness centers as well as subsidies employees can apply to the cost of gyms closer to their homes or even to in-home workout equipment. Employees also receive life, accident and short and long term disability insurance coverage from Biogen Idec. These already generous insurance plans can be expanded should the employee desire to do so. Recognizing that high performers need time to re-charge their "batteries", the company offers 13 paid holidays, three weeks of vacation to new employees (and four weeks after just five years of service) and it also closes for the week between Christmas and New Year's. Financial and planning assistance for educational pursuits are provided, dependent care and many other services are available on-site, and counselors are available for help with life's biggest challenges. There can be no doubt that Biogen Idec is sparing no expense to make its employees lives successful.

Biogen Idec's generosity extends well beyond its own staff. In 2012, the latest year for which information is currently available, the company provided $349 million in financial assistance through its free medicine program, copay assistance and charitable donations. The company donated an additional $3.6 million through its foundation to support educational fellowships and a wide variety of projects to help local communities. Employees also pitch in to help their communities via the company-sponsored "Care Deeply Volunteer Day". In 2012, over 1,600 employees participated in 80 projects in 22 countries. The company also supports numerous programs to help victims of multiple sclerosis and their caregivers with informational, emotional and logistical assistance. The depth and breadth of the company's generosity is compelling.

Biogen Idec's 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 impressive 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 – IBM – One of the Biggest Supporters of Homosexuality

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

IBM is one of the largest and most successful companies in the world. For over a century, IBM has continuously, and often rather amazingly, adapted its business model in order to remain relevant within the technology sector. It produced good returns for its shareholders and has been an good corporate citizen in most respects. Unfortunately, IBM has also been more than willing to be a leader in adapting to the changing moral climate in the nation. IBM has been rated as one of the relatively few companies which have been among the most active corporate supporters of the sin of homosexuality. It has been a very early adapter in most facets of normalizing homosexuality in the corporate world and, therefore, our culture. Without the support of influential companies like IBM, we doubt the cultural acceptance of homosexuality would have advanced as quickly as it has in recent years. Indeed, we believe corporate support for homosexuality has been more important than judicial or legislative actions favoring gays.

While as Christians we love homosexuals just as much as heterosexuals (we are all sinners after all), we are compelled to follow the Bible's lead in identifying homosexuality as a sin. We have no malice towards our fellow sinners and actually feel great compassion for them, as we hope they will feel the same for us. We could not, however, be Biblically Responsible Investors if we failed to properly acknowledge the Bible's clear teaching on this subject. Since the Bible also teaches us to love sinners, we, like most Christians, seek to find the right path through this contentious issue in our culture. While the culture will always change over time, the teaching of the Bible to love sinners and abhor sin does not change. Therefore, we will continue to highlight corporations using shareholder resources to encourage sinful activity, while simultaneously encouraging all to show grace and mercy to those struggling with this, and all other, sin. As sinners ourselves, we know all too well how much we need that grace.

Excluding IBM 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

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 – Gospel for Asia

"It has always been my ambition to preach the gospel where Christ was not known." Romans 15:20

Gospel for Asia was founded in 1979 by Dr. K.P. Yohannan in order to bring the gospel to South Asia via locally trained ministers. Yohannan, after spending four years pastoring a church in the United States felt called by the Lord to return to his native India and share the good news of the gospel. The ministry's website states: "Our mission in life is to be devout followers of Christ and to fulfill the Great Commission among the unreached in Asia through training, sending out and assisting qualified laborers in partnership with the Body of Christ." Yohannan has done this very effectively as over 1,000 churches have been established as a result of the ministry's efforts over the past 35 years. The ministry also operates 67 bible colleges throughout the South Asian region where local converts are trained and sent out onto the mission field, often to places that have never heard the name of Jesus previously. Currently, over 9,000 students are being trained at these facilities. In many cases, these new ministers of the gospel will have to face significant persecution and some previous graduates from Gospel for Asia's bible colleges have already been martyred.

Donors to Gospel for Asia can sponsor one of these national missionaries. Gospel for Asia also has an outreach to the poor and members of the lower caste of Indian society called Bridges of Hope. Gospel for Asia educates, feeds, clothes and provides medical services for children trapped in utter poverty throughout South Asia. Over 60,000 children have been blessed by this outreach and donors can sponsor one of these children as well. The ministry also has many other outreaches including providing clean water, distributing Dr. Yohannan's teaching materials and bibles, a radio teaching ministry and helping abandoned widow and children. While Gospel for Asia does not publicly reveal its audited financial statements to minimize persecution, it has shared these with MinistryWatch.com. In respect of their wishes, MinistryWatch.com only reports on the financial ratios and Gospel for Asia's Financial Efficiency Rating. Moreover, the ministry is a member of the ECFA.

Gospel for Asia has grown to be a ministry of impressive scope and influence, particularly in India. It use of national missionaries and its focus on helping those in desperate spiritual and physical situations is admirable. Gospel for Asia has a four star Financial Efficiency Rating from MinistryWatch.com, indicative of its wise use of donor resources. We believe Gospel for Asia 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

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 – SRG

"We carry the offering, which we administer in order to honor the Lord." 2 Corinthians 8:19b

Strategic Resource Group (SRG) was founded by Paul Schultheis in order to help Christian high capacity donors make the maximum impact with their giving in one of the neediest regions of the globe. SRG's focus is principally on the Middle East and North Africa and it has become one of the largest funders of Christian ministry in this area. It has extensive knowledge of meaningful giving opportunities found in this region and the key players needed to make a project successful. SRG then builds partnerships with donors who have the capacity to fund such opportunities at a high level over multiple years. SRG utilizes a ministry mutual fund model which helps donors target their giving while benefitting from the extensive regional expertise of SRG's portfolio management staff. The excellence of SRG's due diligence efforts in carefully vetting ministry partners assures the eternal impact of their giving is maximized to the greatest extent possible. SRG also funds Strategic Planning Institutes where ministries learn how to both build organizational capacity and collaborate with other ministries to achieve strategic Kingdom objectives.

There can be little question that the Middle East is a worthwhile target for SRG's and its donor partners' efforts. Despite the reputation for being among the most difficult mission fields, the Middle East is in many ways ripe to hear the good news of the Gospel. Increasingly, there are reports of the Lord working to soften the hearts of disillusioned Muslims so that many are now more receptive to the gospel than in the past. Indeed there have been many reports of Muslims giving their lives to Jesus. For those with a heart for the Middle East, becoming a partner with SRG is perhaps the most impactful way to participate in this move of the Spirit as well as improve the effectiveness of your giving. For more information, please contact Rusty Leonard at Stewardship Partners. Rusty also serves as a board member for SRG.

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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