STEWARDSHIP PARTNERS
MARKET COMMENTARY

QUARTERLY COMMENTARY | VOLUME 18 ISSUE 1 | APRIL 2018

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Volatility Returns as Stocks Stumble Early in 2018

"Then you will go on your way in safety, and your foot will not stumble." Proverbs 3:23

Equities finally stumbled in early 2018 (Table 1) following a record fifteen consecutive month run of low volatility advances. The decline from the peak in late January was greater than 10% and therefore technically can be called a correction in what is now the second longest bull market in history. Fortunately, Stewardship Partners' defensive portfolio posturing helped virtually all of our clients' portfolios achieve signifcant positive returns during the first quarter versus the market, which experienced its first quarterly decline since the third quarter of 2015. Also aiding our performance was the good return on our largest holding, a drug company, which received FDA approval for its key drug in early March. So, for the third straight year, Stewardship Partners is off to a fast start to the year. We believe there is a very good chance we will be able to build on our strong early returns as the year progresses, primarily because of the anticipated success of our largest holding's new drug and the positive impact it should have on our clients' portfolios.

Chart 1

Source: Bloomberg

The market's struggles, as we thought likely, were initially not really tied too closely to any specific factor. As we had suggested in past commentaries, the market had simply gotten ahead of itself as investor optimism blossomed to dangerous levels as stocks ground out consistently small gains most days in 2017 and many in January 2018 too. Finally, in late January in a rush of irrepressible optimism, the last marginal buyer of stocks got invested and there was no one left to push share prices higher. Over the next week share prices fell steeply and volatility quickly returned. As seen in Chart 1, there were 23 moves of 1% or more in the S&P 500 in the first quarter compared to only 10 in all of 2017! Share prices initially fell by more than 10%, recovered some of that loss, then fell again to the same level as the first decline. This pattern repeated itself once more leading the once rosy investor sentiment to come crashing down to a high level of investor pessimism. Early in the second quarter, we determined this now high level of investor pessimism likely indicated at least a short term rally in stock prices was likely. Moreover, since overall economic trends remained mostly positive during the first quarter, we expect first quarter corporate earnings to be strong. This too should be supportive of at least a short term rebound in share prices.

Table 1

1Q18 Total Returns

US Indices	1Q18	5y Ann
S&P 500	-0.8%	13.3%
S&P 500 Value	-3.6%	10.9%
S&P 500 Growth	1.9%	15.4%
NASDAQ	2.6%	18.1%
S&P 400 (Mid Cap)	-0.8%	12.0%
S&P 600 (Small Cap)	0.6%	13.6%
Treasury Bonds	-1.2%	1.1%
High Grade Corp. Bonds	-2.3%	3.0%
High Yield Corp. Bonds	-0.9%	5.0%
Gold	1.7%	-3.7%
Global & International Indices		
MSCI World	-1.3%	9.7%
MSCI EAFE	-1.7%	6.5%
MSCI Euro	-0.4%	8.1%
MSCI Far East	0.1%	8.5%
MSCI China	0.1%	8.8%
MSCI Japan	1.8%	11.3%
MSCI Emerging Markets	1.3%	5.0%
US Economic Sectors		
Energy	-5.9%	-0.4%
Materials	-5.5%	9.9%
Industrials	-1.6%	14.0%
Consumer Discretionary	3.1%	15.7%
Consumer Staples	-7.1%	8.6%
Health Care	-1.2%	13.9%
Financials	-1.0%	15.5%
Information Technology	3.5%	20.6%
Telecom	-7.5%	4.1%
Utilities	-3.3%	9.2%

Source: Bloomberg

The sell-off in stocks in February and March was pushed along by several forces, most notably the threat of a trade war. President Trump sought to fulfill one of his campaign promises by getting the United States better deals with its main trading partners. As the President amped up his trade war rhetoric, the market got nervous. Trade wars have historically always been bad for business. Many believe the trigger for the Great Depression was a trade war started by President Hoover. Trade wars slow economic growth and can also lead to higher levels of inflation. Since the Federal Reserve is already in the midst of raising interest rates to help forestall inflationary pressures, the market got even more concerned. Naturally, our main trading partners threatened to retaliate against the actual and proposed tariffs, which further disrupted the markets. In the end, however, it has been more talk than actual action. Frankly, no one believes President Trump wants an actual trade war. Indeed, calling for tariffs and making a lot of threats is just the President's normal operating procedure when entering into a negotiation. It is undoubtedly his hope it will lead to better deals, and he might be correct. After China initially tried to match the President's bluster, their leadership then followed up with a much more conciliatory approach. We suspect the trade war will never escalate into into an actual conflict but will remain more a war of words with an eventual positive resolution. That may keep the market uneasy for a while but should help avoid a further sharp drop in share prices.

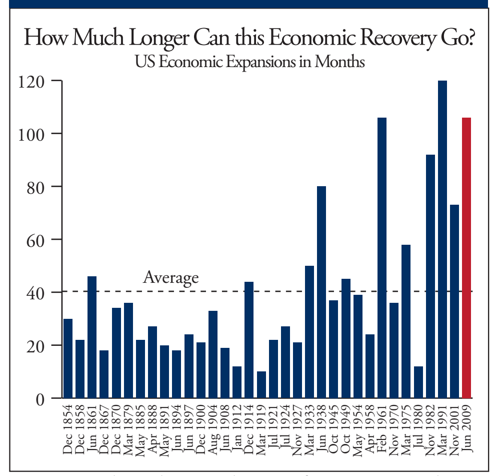
Of greater concern, however, are indications that the strong global economic recovery may be fading. Like the bull market, the current economic expansion has been much longer than normal. A recession does not appear imminent, but then it rarely does.

The Global Economy is Still Strong, But Risks Are Rising

"When you see a cloud rising in the west, immediately you say, 'It's going to rain...'" Luke 12:54

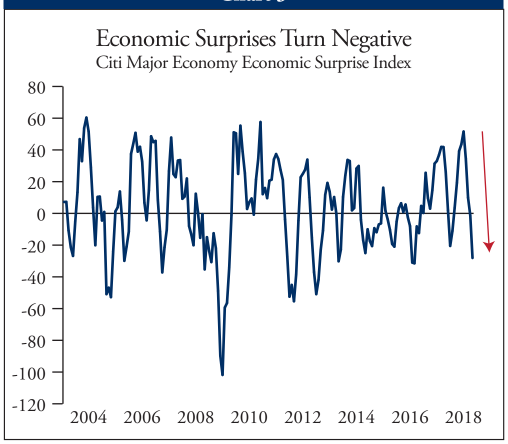
Because the current economic expansion in the US was so tepid for so long, it really does not feel like we have been in an expansion mode since mid-2009. Nevertheless, this recovery is now the second longest ever, following the expansion that covered almost the entire decade of the 1990's (Chart 2). The current long period of economic growth is also more than twice as long as the average one, in keeping with the trend in recent decades when economic policymakers have become much more skillful in managing the many factors influencing economic growth. Normally, this far into an economic expansion, there are signs of wear and tear which would highlight the risk of an impending recession. While some such signs are visible at this point, the fact remains that economic growth in the US and the globe has been faster, rather than slower, recently. Much of the credit for this can be given to President Trump's economic policies which have reduced burdensome regulations, cut taxes at both the corporate and individual levels and instilled confidence in businesses and consumers alike.

Chart 2



Source: Deutsche Bank, National Bureau of Economic Research

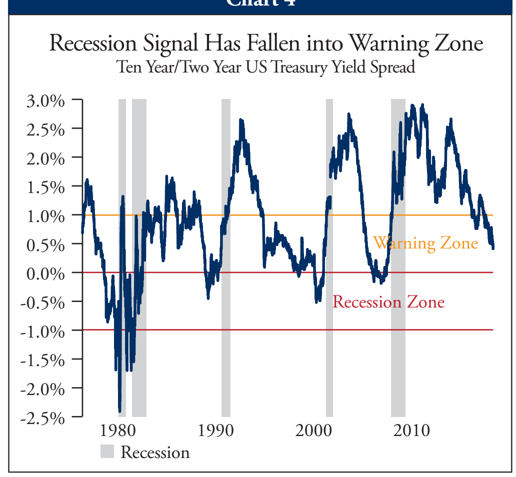
Chart 3



Source: Bloomberg

Some of the rising confidence coming from President's Trump's earlier policies, however, may be at risk due to the prospect of a trade war initiated by the President. The rhetoric surrounding trade has certainly jumped in the last two months and this has occurred just as some economic reports have begun to come in surprisingly weaker than expected in the US and elsewhere. In Europe, in particular, negative economic surprises have really jumped higher quickly and are a trend that deserves our full attention. Overall for the major global economies, the trend in economic surprises has recently fallen into negative territory (Chart 3). While not too alarming just yet, given the advanced age of the global economic expansion, we will be monitoring this closely in the next few months. In addition to the trade war talk, and talk is pretty much all it is at this point, the geopolitical situation has also worsened considerably with Russia and the US trading tough accusations, the US imposing heavy sanctions on Russia, Russia using a nerve agent to attempt to assassinate a former Russian spy in England and the country's support for Syria when it used poison gas on its own citizens. While quiet at the moment, concerns regarding a potential war with North Korea remain. These rising geopolitical tensions are not conducive for economic growth given the grave risks accompanying such rising tensions.

Chart 4



Source: Real Investment Advice, St. Louis Fed

Economic growth might be fading a bit from the stronger level seen recently, but most models of recession risk suggest one is not likely to occur in the next year. Chart 4 highlights one of the best predictors of recession, the yield differential between 2 year and 10 year US Treasury bonds. While this relationship has dipped into the "warning zone", the current level does not yet cause us to be alarmed. At the same time, we are more than well aware most recessions are already underway before economists recognize it. Table 2 shows the track record of how late economists are to recognize a recession and highlights how the stock market generally has figured it out well before the economists do. As can be seen, waiting around for confirmation a recession is underway can be costly to shareholders. Of course, there is also the old stock market adage that states, "the stock market has correctly predicted seven of the last three recessions". Investing is a difficult endeavor and no one gets it right all the time, but the yield curve has proven to be a much more trustworthy indicator of recession risk than the stock market. We will continue to watch it closely in the months ahead since recessions always lead to significantly lower stock prices. Given the strong fiscal stimulus the US economy is receiving from both the tax cuts and the ridiculously massive omnibus federal budget bill recently signed into law, we suspect either the trade war would need to become reality or some other disturbing geopolitical event would need to occur to cause a recession any time soon.

Table 2

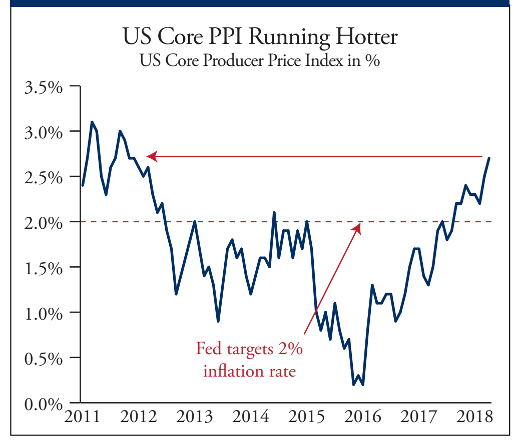
Economists Always Late to Recognize a Recession

Economic Peak	Date Economists Identify Recession	Monthly Lag	Market Decline Peak-To-Trough Pre-Dating
1/1/1980	6/3/1980	6	-6.72%
7/1/1981	1/6/1982	5	-11.44%
7/1/1990	4/25/1991	10	-15.50%
3/1/2001	11/26/2001	9	-19.28%
12/1/2007	12/1/2008	12	-42.72%

Source: Ned Davis Research

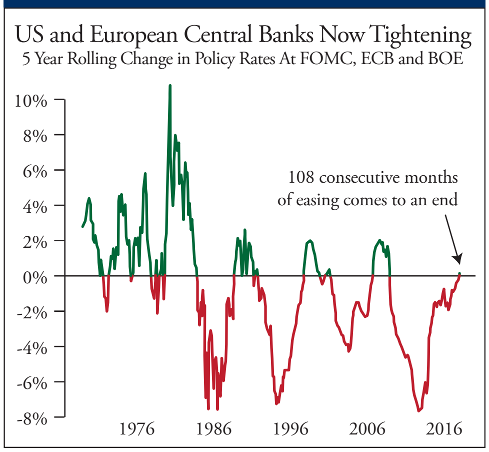
Another common way a recession gets started following a long period of economic advancement is the Federal Reserve worries too much about the threat of inflation and overcorrects by tightening monetary policy too much. This is certainly a risk at the present time given the central bankers are all too aware of the trends in various inflation measures beginning to move rapidly higher. Fueled by the tax cuts, the gargantuan budget bill, low unemployment and a much faster pace of wage growth than seen in recent years, inflation expectations are finally on the march higher. In the US, key inflation measures are now above the 2% target the Federal Reserve tries to target over the longer term (Chart 5). And the Fed has responded to these trends by reducing its unusual monetary policy accommodation that had been in place for a very long time. In its most recent meeting minutes, it was clear the Federal Reserve governors were leaning increasingly toward ramping up their expected pace of interest rates hikes in 2018 and 2019 in order to combat this inflation threat. Should they end up getting overzealous in their inflation fight, they might accidently prematurely trigger a recession.

Chart 5



Source: Bloomberg

Chart 6



Source: Bloomberg

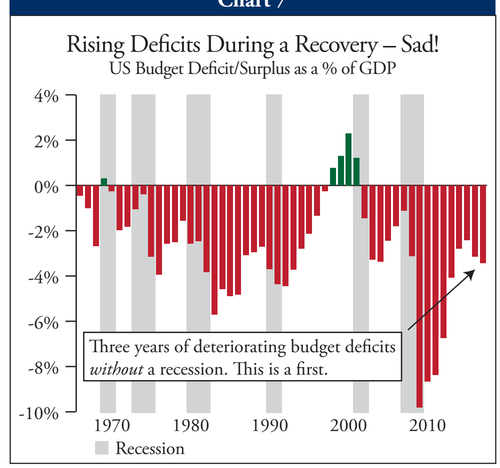
With a new Fed Chairman, Jerome Powell, the risk of the Fed trying too hard to combat inflation is even higher. No new Fed chairman wants to go down in history as the one who let inflation get out of control. As a result, with Powell entering his new job at a critical moment just when inflation seems to have come out from a long period of hibernation, the risk of a central bank overreach is greater than normal. Moreover, the unwind of the trillions of dollars of assets acquired during the Fed's three Quantitative Easing (QE) programs is now beginning to pick up speed, which may act a constraint on the economy as well. Since the Fed has no prior experience with removing QE from the system, the chance of an error on this front is greater too. And it is not just the Fed that is tightening now. Chart 6 shows when the actions of several major central banks are viewed together, the combined impact has just moved to a tightening bias which may start to constrict global growth. While the current recovery is very old at this time, it is also clear there are more risks on the horizon to economic growth than is typical. While a recession is still not likely to raise its ugly head soon, we are well aware it can appear faster than anyone imagines.

Will Fiscal Policy Be Constrained in the Next Recession?

"We have had to borrow money to pay the king's tax on our fields and vineyards." Nehemiah 5:4

To be sure, a bear-market inducing recession seems to be some distance off at this time. A recent survey of economists suggested that, on average, a recession within the next twelve months had only about a 15% chance of occurring. We will soon get an early estimate of economic growth in the first quarter of 2018 and we anticipate a relatively healthy growth rate of around 3%. Some believe this growth has been boosted by post hurricane rebuilding and therefore its recent strength has been somewhat overstated. Even so, the economy, both in the US and around the world, finally feels like it would rather grow than contract. During the Obama presidency, the economy always felt as though it wanted to falter and therefore had to be constantly propped up by the Federal Reserve's heavily accommodative QE monetary policy. President Trump's economic policies have freed the US economy to expand as it is naturally designed to do. Still, while an economic downturn may not be looming, it is still inevitable. We already know a recession will one day pose a threat to our clients' portfolios and it is now just a matter of being prepared adequately for when that unfortunate day arrives. At the same time, as long term investors, we also know recessions are temporary and typically last not much longer than a year, if even that long. We have navigated our clients through many of them in the past and we will do so in the future.

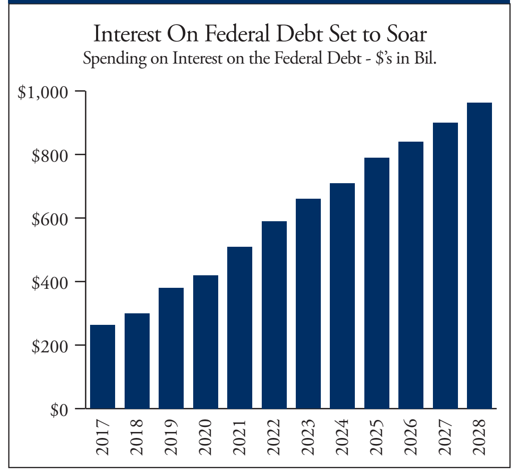
Chart 7



Source: Gavekal Data, Macrobond

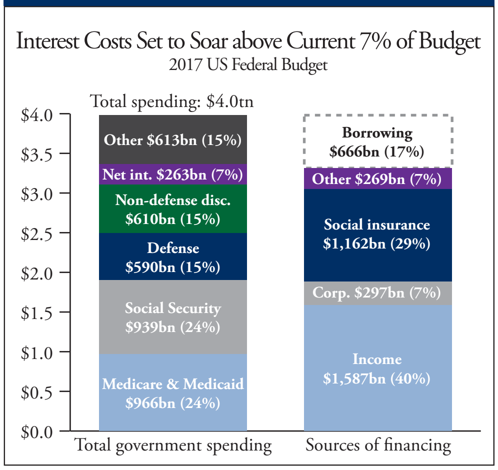
As we consider the possibility of another recession, one concern we have is the ability of the US monetary and fiscal policymakers to be able to respond as forcefully as in the past to an economic slump. Chart 7 highlights the US budget deficit will have worsened for three years in a row for the first time ever without a recession occurring. This means instead of being in a saving for a future rainy day mode when times have been better, we as a nation have instead spent even more money. This is just one reason why so many voters were very disappointed when President Trump signed the recent massive budget bill, which allowed the "Swamp" to enrich all of their special interests. Combined with the Trump tax cuts, this fiscal profligacy could come back to haunt the US economy when that next recession does finally arrive. Federal Reserve Governor Eric Rosengren recently pointed out in a speech that by engaging in such excessive government spending now, Congress may be constrained from providing the necessary fiscal boost to the US economy during the next recession. Its capacity to cut taxes further and/or raise spending may simply not be as great as needed. Indeed, unless the Congress and the President work to get government spending under control, both the voters and the financial markets could rise up against them. Not surprisingly, given the extremely negative feedback from conservative voters, there is already an effort underway in Congress to undo some of the spending projects just approved in the budget bill. Unfortunately, we do not expect this to be successful and suspect it is just a political stunt to appease aggrieved voters. Conservative voters are justifiably dismayed by the recent massive money grab by Washington, DC and this will likely be reflected in the November Congressional elections as Republicans seem sure to lose many seats in the House. Sadly, that might well open the door to even larger deficits as the newly elected, more liberal congressmen will be anxious to reward their voters with spending on their pet projects. At the moment, however, we believe the Republicans can maintain their majority in the Senate and hopefully will thwart any further foolish spending emanating from the House.

Chart 8



Source: CRFB, CBO

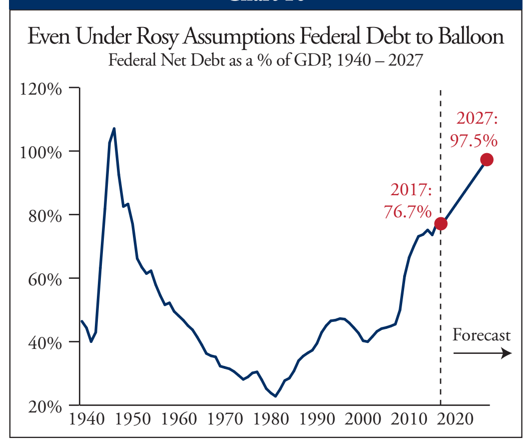
Chart 9



Source: JP Morgan Asset Management

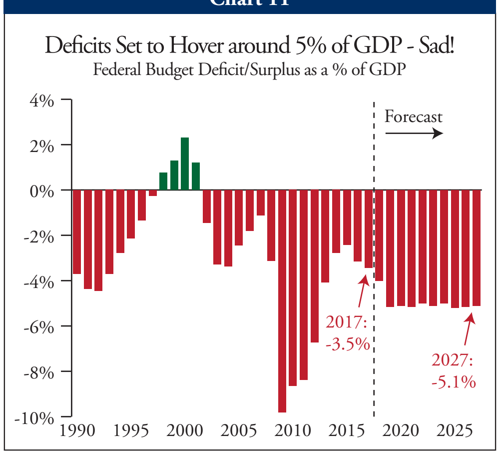
Another problem the nation faces on the budget front is the rising level of interest rates. Even if our legislators would stop their spending spree, the interest costs on our US government debt is poised to rise meaningfully in the years ahead. Much of the US government debt is short term and therefore quickly reprices to the higher level of interest rates. After many years of interest costs being relatively stable, due to lower interest rates even as US government debt increased sharply, the situation has become much more difficult. Not only is the amount of US government debt continuing to rise rapidly due to deficit spending but interest rates are now also moving upwards. This creates a leveraged negative impact on the interest charges the US government must pay (Chart 8). When you also take account of the Federal Reserve's plan to reduce its holdings of US government debt and the possibility China may become a less willing buyer of our debt due to trade scuffles, it may not be too long before we see noticeable stress building in the bond markets. Presently, net interest expense amounts to 7% of the US government's spending (Chart 9) but we expect it to rise quickly from that level in the years to come, further limiting the ability of policymakers to respond with increased government spending during the next recession. Given these potential restraints, the next recession could prove to be longer and deeper than those seen in recent decades because the "Swamp" will have already spent the money needed to induce an economic recovery. A longer, deeper recession would clearly have negative consequences for investors, so it is even more important than ever to be watchful for signs of a slowing economy.

Chart 10



Source: JP Morgan Asset Management

Chart 11



Source: JP Morgan Asset Management

You will likely not be surprised to find out the Congressional Budget Office (CBO) takes the Pollyannish view of not including a recession in its 10-year economic forecast, meaning by the end of the forecast period, the US economy would have expanded, recession free, for almost two decades! Even with this highly unrealistic approach, the amount of US government net debt as a percentage of the size of the US economy, which is the best way to measure the size of the US federal debt, balloons under CBO's forecasts due to the excessive deficit spending.

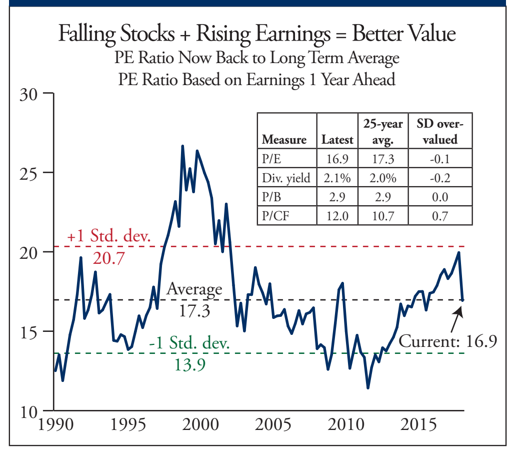
Chart 10 highlights the growing US government net debt over the next ten years. Should a recession occur during this time frame, the result would be even worse. If a significant war broke out, requiring further boosts to military spending, this would also lead to higher levels of federal net debt. While the US is a very wealthy nation and can likely handle these higher debt levels without too much trouble, why take the chance that it might not work out as well as we would hope it will? We never know when the mood of the markets might turn dark when confronted with sharply higher debt and rapidly rising interest costs on that debt. What has been referred to as the "bond vigilantes" may reappear and force the government to get its act together. Bond vigilantes are large institutional bond buyers who can impact he pricing and demand for government bonds by their actions. If they rebel against the profligate government spending, revealed by constant 5%+ deficits in Chart 11, the markets will eventually get quite challenging and Congress may finally be forced to act more prudently.

Lower Stock Prices and Higher Earnings Result in Better Value

"When he found one of great value, he went away and sold everything he had and bought it." Matthew 13:46

We believed the correction in stock prices over the last 2-3 months was nearly certain to occur when we wrote our last Quarterly Commentary in January and it came to pass very shortly thereafter. It is possible, however, the selling pressure has not yet ended, but we felt the collapse in investor sentiment from irrational exuberance to the current low level reflecting significant investor fear, coupled with strong first quarter earnings expectations, was enough evidence to remove the hedges which insulated many of our clients' portfolios from decline during the sell-off. Additionally, the big jump in earnings forecasts as a result of the corporate tax cut combined with the now lower stock prices to bring valuations based on forward looking earnings back near the 25 year average (Chart 12). Still, we have not yet re-invested the cash in our portfolios as we may want to put the hedges back in place before too much longer. Moreover, in light of our very large holding in a drug stock which we believe can produce strong returns by itself for our clients over the balance of 2018 and likely well into 2019 as well, we see no need to take additional risk in what is still a fragile market subject to further decline over the balance of the year.

Chart 12



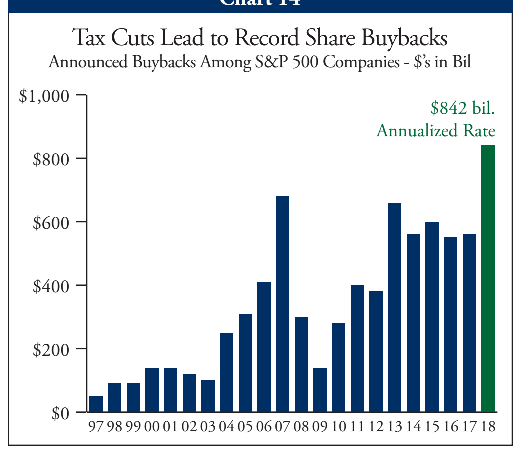
Source: JP Morgan Asset Management

Chart 13

Source: Bloomberg

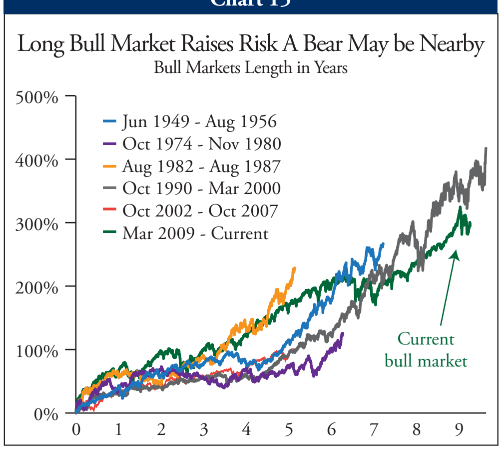
Over the next month or so, however, equities may rebound somewhat from this year's losses on the strength of first quarter corporate earnings reports. Chart 13 highlights 2018's first quarter earnings are expected to be the best since 2012, up about 18%. Each day will bring new announcements from many companies of strong earnings and higher dividend payments, which should at least temporarily provide a good offset to any other bad news facing the markets. Moreover, earnings usually exceed what the analysts expect so the S&P 500 may see earnings growth greater than 20% after all the companies have reported. We have some concern the outlook for future earnings shared by management on their quarterly conference calls with investors may not be as rosy as the first quarter results imply, but we do not expect many warnings of future earnings difficulties either.

Chart 14



Source: JP Morgan

Chart 15

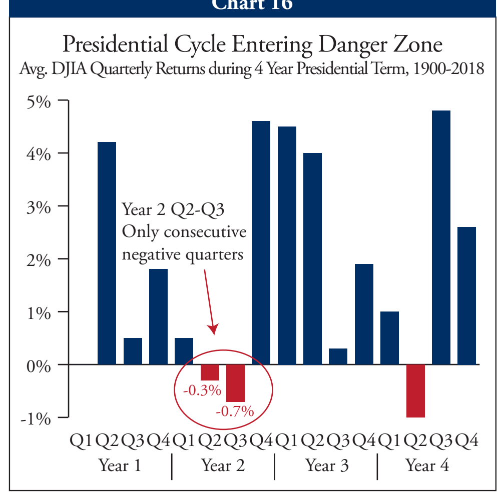


Source: LPL Research

Share prices should also be helped by share repurchases in the weeks ahead. Aided by generous corporate tax cuts, corporate managers have already announced a record number of share repurchase authorizations for 2018, totalling nearly $850 billion (Chart 14). Such a high level of share buybacks should help put a floor under the market if fully implemented. Since companies have to suspend their repurchase of shares between the end of the quarter and when they announce earnings, the demand for shares should grow as the corporate earnings season progresses.

Better stock valuations, strong earnings growth, record share buybacks and no recession on the horizon all encourage us to take a more bullish stance in your portfolio. Geopolitical concerns, the risk of a trade war and the threat of more turmoil in the Trump adminstration mitigate those bullish factors, however. Moreover, the fact this bull market is closing in on the longest one ever (Chart 15) should also cause us to tread more carefully at this time. Bull markets always come to an end and we may look back in the not too distant future and realize we were already halfway to a bear market (which is defined as a 20% decline from the last high point in the market).

Chart 16



Source: The Lyons Share

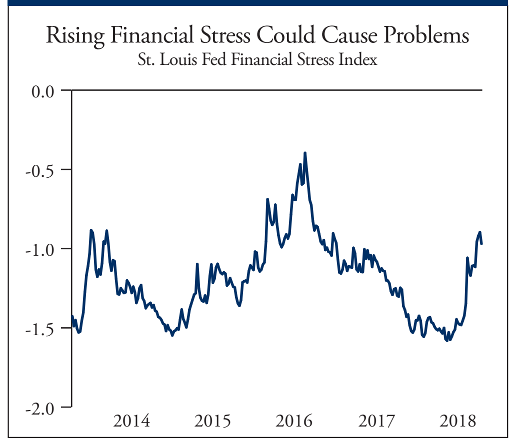
Additionally, we have just entered the time period which historically has been the most dangerous during the four year Presidential cycle (Chart 16). Further, when Congress is at risk of having a new party take control, the market has typically struggled from April until August preceding the November elections. It is still too early to throw caution to the wind as the current market correction can easily turn into a full-fledged bear market.

Rising Financial Stress Could Lead to Trouble Both Here and Abroad

"Do not be far from me, for trouble is near" Psalm 22:11

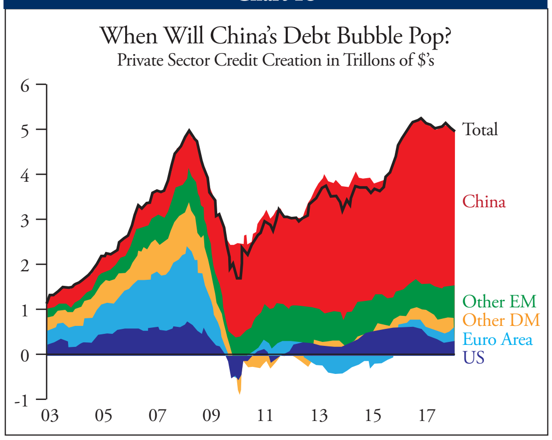
With positive year-to-date returns and a lead over the indices in almost all of our portfolios at the end of the first quarter combined with our largest position having a very strong outlook for appreciation over the next two years, we believe Stewardship Partners clients' portfolios are in an advantageous position. The recent sell-off and strong earnings outlook do offer some encouragement for a lasting recovery in share prices but other factors suggest the market could still face additional downside. Following an exceptionally long economic expansion and bull market, excesses tend to build up that only a bear market can fully correct. Those excesses grow over time without initially causing any trouble in the economy, but then they eventually hit a breaking point. With financial stresses building in the economic system (Chart 17), the chance something unexpectedly "breaks" is rising. "Something" could be the auto loan market where delinquencies are now running higher than during the Great Recession. Or perhaps it could be in the high yield bond market which attracted massive new assets in recent years leading to many dubious loans being extended. We probably will not be able to accurately predict exactly what might "break", but correctly forecasting that something meaningful will come undone and surprise the markets is not as hard. Given how far along we are in this extended economic and market cycle, the risk of a negative surprise is higher than normal. Even so, we are looking for good opportunities to invest the cash in your portfolio.

Chart 17



Source: St. Louis Federal Reserve Bank

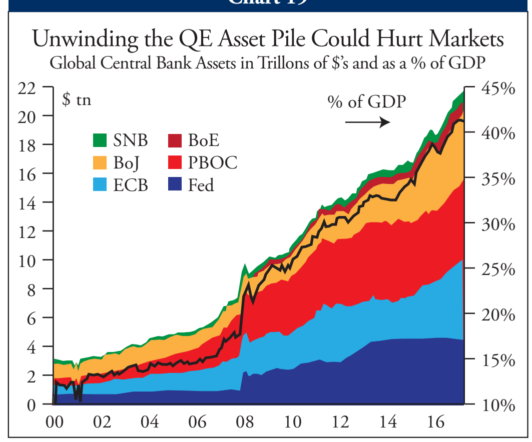
Chart 18



Source: Citi Research

Of course, a negative surprise can come from anywhere in the world. With rising tensions between the US and both Russia and China, the chances for something startling to the markets happening on these fronts is greater than it has been in a long time. Perhaps the biggest risk is one we have long addressed, the possibility of the debt bubble in China exploding. We have never seen such a huge bubble created without causing a period of economic collapse. Chart 18 shows just how gargantuan private credit creation has been in China relative to the rest of the world. Additionally, we know banking standards in China are very lax and that many companies, and even governmental bodies, operate as lenders with little to no supervision. It is a recipe for disaster. We are frankly shocked we have not yet seen any negative repercussions from this source over the last few years. We are fearful the Chinese authorities will soon reach a point where they are unable to keep all the plates on a stick simultaneously spinning that they need to in order to avoid big trouble. If we are right, the global economy could be facing another deflationary force of a major magnitude. Trump's efforts to gain fairer trade with China could end up triggering this risk as Chinese companies would likely suffer if Trump succeeds.

Chart 19



Source: Citi Research

Another issue we are watching with great interest is the expected unwind of the various QE programs around the world. Soon, net buying by the world's central banks is expected to turn into net selling. The buying by the central banks helped financial markets advance even when earnings and economic growth were tepid. Is it possible this anticipated selling from this huge store of securities (Chart 19) will cause the financial markets to weaken even while the economy and corporate earnings grow? Since such selling by central banks has never occurred before, no one can be sure, but it makes sense it would have at least some negative impact on the world's financial markets. In Japan, the government now owns 74% of all ETFs. If they begin liquidating these holdings, it will certainly have a negative impact on share prices there.

On the other hand, the Super Bowl indicator suggests a better market is at hand (Table 3) given the victory by this author's home team, the Philadelphia Eagles - an NFC team. Hopefully, this odd and clearly statistically spurious indicator will more than offset all the risks mentioned above!

Table 3

Super Bowl Champion Eagles Indicate Rising Stocks
NFC Teams Winning Super Bowl Produce Better Performance???

	All Years	If NFC Wins	If AFC Wins
Average Full Year Return	8.5%	10.8%	5.8%
Up Years	37	22	15
Down Years	14	5	9
Total Years	51	27	24
% Higher	72.5%	81.5%	62.5%

Source: LPL Research

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, Chick-fil-A, and one we avoid, Verizon. As a private company, Chick-fil-A is not a holding in Stewardship Partners portfolios while we actively avoid ownership in Verizon in order not to be co-owners in enterprises engaged in, or supportive of, activities which are harmful to our fellow man and our Lord's creation. **We believe, in the long run, both countries and companies that best align their activities with biblical principles will achieve the greatest success.**

The Good – Chick-fil-A – An Exemplary Corporate Citizen

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

Chick-fil-A was founded by Christian businessman Truett Cathy over 70 years ago in Atlanta, GA. The company's first restaurant was called the Dwarf House, which opened in 1946, and its first Chick-fil-A branded restaurant opened in an Atlanta Shopping Mall in 1967. Now the company has over 4,000 Chick-fil-A locations in 46 states and the District of Columbia. Chick-fil-A is one of the most successful fast food operators in the country and it has grown rapidly to become the third largest fast food chain behind McDonald's and Starbucks. Sales have increased each year since the first Chick-fil-A restaurant opened and average sales per Chick-fil-A restaurant are the highest in the fast food industry. This high level of sales is achieved even though the company keeps its restaurants closed on Sundays in order to honor the Lord and allow employees to participate in Sunday worship services. The company's award winning advertising featuring cows encouraging people to "Eat Mor Chikin" have been one of the more successful advertising campaigns in history. This privately held company is is well known among consumers for its overall excellence, cleanliness and outstanding service. Many customers have noticed employees almost always respond with the phrase "my pleasure" when thanked for their good service. Inevitably, it actually seems they mean it as well as Chick-fil-A employees appear to be among the most cheerful workers you will find, especially in a fast food restaurant!

Normally in this section, we feature a public company demonstrating biblically-based values which we hold in one of our Stewardship Partners portfolios. Since Chick-fil-A is a private company, we are not able to own Chick-fil-A's stock. Nevertheless, we felt compelled to highlight Chick-fil-A in light of the company once again being in the news due to its biblically-based approach to its business. In addition to closing its restaurants on Sundays, the company uses a debt-free approach to funding its growth and is unusually generous. Some years back, Chick-fil-A came under fire from liberal groups for its support of the biblical view of marriage as well as its support for pro-family Christian ministries. After the press reports highlighted the company's stand, the mayor of Boston, along with other cities, stated he would do everything in his power to keep Chick-fil-A from opening restaurants in his city. Various colleges across the country have also said they will not allow a Chick-fil-A restaurant on their campuses because of its biblically-based stand against gay marriage.

Following this situation, Chick-fil-A president, Dan Cathy, reached out privately to a leading homosexual activist and, over time, was able to have a continuing conversation with him that was not influenced by the hyperbolic press reports. This activist eventually publicly offered words of support for Chick-fil-A and the furor died down for a time. More recently, some in the press have tried to stir the pot again. Despite Mayor de Blasio's calls for Chick-fil-A restaurants to be boycotted, the company has expanded into New York City. The residents of New York have completely ignored the mayor and the new restaurants there, which are much larger than the typical Chick-fil-A store, often have a long line of patrons outside their doors waiting to get in. Whether in suburban Atlanta where Chick-fil-A was founded or in New York City, customers quickly recognize that Chick-fil-A offers good food at a great price and is staffed by friendly employees who keep the place very clean and tidy. So it is no surprise it has been estimated that Chick-fil-A is said to be serving a new chicken sandwich every six seconds in New York City. A Chick-fil-A executive once said that it is their goal to serve you great food but also leave you feeling that you got a nice hug as well in the process.

Despite the wholesome atmosphere found in a Chick-fil-A restaurant, those who are fearful of the Christian values espoused by the company are feeling insecure by its continued success in what they believe is a safely liberal part of the country. Recently, The New Yorker magazine ran an article complaining about the company's success in the "Big Apple". The title of the article was "Chick-fil-A's Creepy Infiltration of New York City". Here is just one concerning quote from the left-leaning author who no doubt considers himself a very welcoming, open-minded, diversity-encouraging person:

> The brand's arrival here feels like an infiltration, in no small part because of its pervasive Christian traditionalism. Its headquarters, in Atlanta, are adorned with Bible verses and a statue of Jesus washing a disciple's feet. Its stores close on Sundays. Its C.E.O., Dan Cathy, has been accused of bigotry for using the company's charitable wing to fund anti-gay causes, including groups that oppose same-sex marriage. "We're inviting God's judgment on our nation," he once said, "when we shake our fist at him and say, 'We know better than you as to what constitutes a marriage.' " The company has since reaffirmed its intention to "treat every person with honor, dignity and respect," but it has quietly continued to donate to anti-L.G.B.T. groups. When the first stand-alone New York location opened, in 2015, a throng of protesters appeared. When a location opened in a Queens mall, in 2016, Mayor Bill de Blasio proposed a boycott. No such controversy greeted the opening of this newest outpost. Chick-fil-A's success here is a marketing coup. Its expansion raises questions about what we expect from our fast food, and to what extent a corporation can join a community.

As readers of this Quarterly Commentary are no doubt already aware, every belief system is welcome in the liberal corners of our great country but Christianity. Still, it is alarming to see such obviously biased language being used by someone who honestly believes they are the champions of diversity and inclusivity. To see a Christian-based, corporate success story like Chick-fil-A, whose generosity to those in need is very compelling, being bashed by a liberal magazine writer is striking. The article screams "Fake News" as the writer has missed the essence of Chick-fil-A, which is beautiful and heart-warming. Chick-fil-A is one of the best examples our country has to offer of what we refer to as Compassionate Christian Capitalism but those on the left refuse to acknowledge the good this company does with the resources the Lord has entrusted it with. It is quite a sad situation, being replayed across our country in a variety of ways, but we are still encouraged. Despite such opposition, the company remains blessed and the people of New York have apparently already figured out that liberal criticism of this company is way off-base.

Chick-fil-A has provided over $46 million in college scholarships to its own employees over the years. But Chick-fil-A is also very community focused as well and donates millions to local organizations seeking to help inspire children to become tomorrow's leaders of our society. There are a wide variety of programs the Chick-fil-A Foundation supports, most focusing on youth education and training, far too many for us to catalogue here. To get a flavor of what Chick-fil-A does, please check out this video: https://www.Chick-fil-Afoundation.org/true-inspiration-awards. Perhaps one day the author of the New Yorker article will take the opportunity to write about this aspect of Chick-fil-A!

The Bad – Verizon – Porn, Support for the LGBT Lifestyle and Multiple Fines

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

Verizon is a huge telecommunications company that derives about 70% of its $127 billion in revenues from its wireless telephone business. Through its wireless telephone division, the company is connected to 146 million wireless devices. It also offers landline phone services to 18 million consumers and businesses. This huge company, the second largest telecom company in the US after AT&T (first in wireless phones), also operates cable television services through its FIOS subsidiary. But its operations are not limited to just these areas of telecommunications as it is involved in all facets of this sector and does business in 150 countries. While Verizon has some attractive attributes, it unfortunately is involved in a multitude of activities that we as Christian investors do not want to be profiting from. Sadly, the company offers pornography in multiple ways via it FIOS cable television services, including pay-per view channels. Via its internet search engines, pornographic material can also easily be accessed. FIOS also offers television channels dedicated to supporting the LGBT community. Indeed, support for LGBT causes is rampant at Verizon leading our sister organization, the Biblically Responsible Investing Institute (BRII), to label the company as one of the most active supporters of these lifestyles that are at odds with what the Bible teaches. Additionally, the company has been subject to a variety of fines for illegal business practices, including adding expenses to customers' bills for services not requested by the customer. Recently, Verizon and its competitor AT&T have come under investigation for attempting to block helpful technology which would allow customers to easily switch their wireless service to a new provider. Any of the above issues would cause us to be cautious about investing in Verizon's stock for our clients, but taken together they rise to a level of concern which is greater than most companies we could invest in.

We seek to avoid investing in companies like Verizon. 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 the Bible defines as sinful and which can have a negative impact on individuals and society in general.

STEWARDSHIP PARTNERS MINISTRY COMMENTARY

Our Ultimate Goal – Funding the Lord's Work

"Therefore go and make disciples of all nations." Matthew 28:19a

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 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 – ICU Mobile – Saving Children from Abortion

"For you created my inmost being; you knit me together in my mother's womb." Psalm 139:13

ICU Mobile's founder, Sylvia Slifka, heard from the Lord during a time of prayer in 2003 that she was to start a ministry offering free ultrasounds to women considering abortion. Additionally, she was to bring the ultrasound machine to the women rather than wait for them to come to her. The Lord even gave her the name of the ministry where the "ICU" stands for "I see you" which is exactly what an ultrasound allows a pregnant mother to do – see her own baby. Research has shown that pregnant women considering abortion often choose not to move forward with the deadly procedure after seeing an ultrasound of their child in their womb. By making it as easy as possible for women to have that ultrasound, many babies' lives have been saved. Additionally, many women have been exposed to the life-saving message of the gospel as well. This is how ICU Mobile describes their hope for what their ministry can achieve: "Our vision is to glorify God through touching the lives of 75,000 people, serving 50,000 women and seeing more than 20,000 pregnant clients choose life annually by 2021 with the hope and purpose only given through Jesus Christ." ICU Mobile has 32 mobile homes retrofitted for providing women with a safe environment for receiving an ultrasound and operating alongside 48 pregnancy center affiliates in 24 states. In 2016, they had over 5,000 women receive an ultrasound and nearly half of those chose not to abort their child! Additionally, there were at least 100 women who also were led to Jesus as their Lord and Savior.

ICU Mobile describes its mission as: "Serving Women facing unintended pregnancies by offering the Hope and Purpose only found in the gospel, Saving Lives of the unborn using ultrasound technology and advocacy, and Sharing Christ—through word and deed—with each person that steps on an ICU Mobile Unit." ICU Mobile first works with local pregnancy centers in helping them obtain a mobile medical unit. They then work to prepare the local pregnancy center to effectively launch their mobile ministry to abortion-minded women in their community. ICU Mobile's commitment does not stop there; they continue to work with the pregnancy centers to build a sustainable ministry through continuing education and coaching. Included in that training is coaching on how to identify and network with the key people in their communities which will help them draw women to their mobile ultrasound facilities. Women are offered a free pregnancy test, a free ultrasound and are guided toward the local pro-life pregnancy center to receive additional aid and counseling. The retrofitted mobile homes are clean and have the appearance of a medical facility. In order to not discourage their use, the mobile homes are branded in a neutral manner. Once inside, however, pregnant women are met by compassionate Christians who perform the needed tests but, more importantly, also offer Christian love and the gospel.

ICU Mobile is not currently included in MinistryWatch.com's database so we cannot offer our normal review of the ministry's finances. However, one of our clients serves as a director of the ministry and this gives us the confidence to suggest ICU Mobile as being worthy of your consideration as a ministry to support financially. It is still a small ministry and every dollar the ministry receives is certain to be meaningful in helping it carry out its mission. There can be few better methods to convince a mother to choose life for her child than letting her see her unborn child.

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)
- The Steward's Way (thestewardsway.org)
- 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)
- E Six-Thirteen (esixthirteen.com)

WHERE to invest in kingdom ministries?

Ministry Research:

- ECFA (ecfa.org)
- MinistryWatch.com (ministrywatch.com)
- Acton Institute (acton.org/public-policy/effective-compassion)
- Intelligent Philanthropy (intelligentphilanthropy.com)

Ministry Mutual Funds:

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

Featured Ministry Marketplace Participant – Strategic Resource Group

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

Strategic Resource Group (SRG) was founded by Paul Schultheis in order to help high capacity Christian donors make the maximum impact with their giving in one of the neediest and most difficult to evangelize regions of the globe. SRG's focus is exclusively on the Middle East and North Africa and it has become one of the largest, if not the largest, funder of Christian ministry in this troubled area of the world. It has extensive knowledge of the most meaningful giving opportunities found in this region as well as the key leaders needed to make a project successful. SRG 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 where donors pool their giving together and benefit from the extensive regional expertise of SRG's portfolio management staff as the ministry allocates those funds across the region in the most optimal fashion. SRG's portfolio managers work diligently to sift through the many worthy ministries in the region to select those with the best chance of achieving the greatest kingdom impact. The excellence of SRG's due diligence efforts is quite compelling and may be unmatched in the non-profit arena. 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 in the Middle East and North Africa.

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 riper than ever 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!

STEWARDSHIP PARTNERS

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