STEWARDSHIP PARTNERS
MARKET COMMENTARY

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Too Fast a Victory?

"The plans of the diligent lead to profit as surely as haste leads to poverty." Psalm 21:5 (NIV)

Just as the market closely followed events related to the war in Iraq in the first quarter of 2003, so it did in the second quarter. As coalition troops quickly covered hundreds of miles of Iraqi territory and easily conquered Saddam Hussein, share prices advanced rapidly and seemingly vanquished the three-year bear market. The market's mood quickly shifted from fear of impending doom to a degree of euphoria. The celebration in the streets of Baghdad as Hussein's statue was torn down was a metaphor for investors exulting in removing a similar statue of their own tyrant - the angry, growling bear. Table 1 highlights the excellent returns achieved by stock market indices in the second quarter. **We are pleased to report that our domestic, global and international Leaders' portfolio returns for this quarter exceeded those of the applicable index**.

Table 1

2Q03 Index Performance

Index	Q2 Return
Domestic	
S&P 500	15.4%
Global	
MSCI World	17.3%
International	
MSCI World Ex US	19.5%

Source: S&P, MSCI

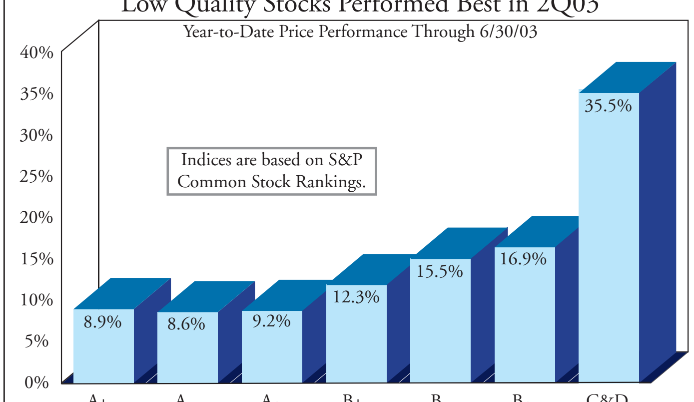
Contributing to the quarter's superlative performance was not only the victory in Iraq but also related political developments that boosted investor sentiment. France, Russia and Germany retreated to their previous conciliatory diplomatic positions relative to the US and North Korea's tirades were sharply reduced. Favorable trends in Middle East politics were also apparent including Syria becoming more cooperative, Saudi Arabia aggressively pursuing Al Qaeda terrorists and progress for peace between Israel and the Palestinians. Much of this improved political environment can be traced straight to the President's uncompromising foreign policy positions.

President Bush's income and dividend tax cuts, another reduction in interest rates by both the US and European Central Banks, and strong liquidity trends also provided economic fuel for the market's rebound. Earnings also continued to recover and the quality of those earnings improved dramatically due to new SEC regulations.

Nevertheless, just as pockets of trouble began to show up in Iraq after the coalition's quick initial victory, so too have worrisome developments appeared in the markets. A variety of **reliable sentiment indicators are highlighting extreme bullish attitudes (a contrary indicator), insider selling has risen to four times the level of insider buying, IPO activity has resurfaced and the share prices of lower quality companies have advanced the most this year** (see Chart 1). Yahoo's stock price has more than doubled this year and it now trades at 144X last year's earnings, 98X 2003 estimated earnings, 20X its own sales and 3X the sales of its entire industry! Moreover, Yahoo sold investors a convertible bond that paid no interest and was priced at a 68% premium to its stock price! Investors in this security clearly were not diligent in their analysis of its return potential and we trust their haste will not lead to poverty! While such foolishness is not yet as commonplace as it was at the bubble's peak

Chart 1

Low Quality Stocks Performed Best in 2Q03



Source: Merrill Lynch Quantitative Strategy in 2000, it is disconcerting that it has so quickly reappeared. It may foreshadow the need for a consolidation of the market's recent sharp advance. Accordingly, we tactically positioned Stewardship Partners' portfolios in a conservative manner going into 2003's third quarter.

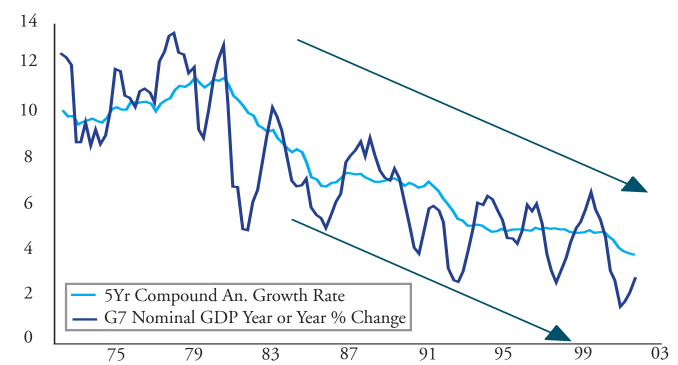
"Shock and Awe" Stimulus Boosts Stocks But Not Economic Activity

"Be sure you know the condition of your flock, give careful attention to your herd." Psalm 27:23 (NIV)

The ability of global stock prices to react favorably to the recent sizable economic stimulus stands in stark contrast to the continued disappointing sluggishness of the world's economies (See Chart 2). The stock market's positive reaction itself has contributed greatly to the stimulus as it has added some $2 trillion in wealth to the US economy. We refer to this stimulus as "Shock and Awe" because it has truly been substantial.

Chart 2

Nominal GDP Growth for G7 Economies



Source: Merrill Lynch

For example, the US Federal Reserve and the Japanese Central Bank have both stated that deflation is their enemy and they are doing all they can to prevent it. Even the European Central Bank now seems to be catching on to the problem as it recently reduced short-term interest rates. Accordingly, monetary policy has been very accommodative with abundant liquidity provided to the markets in the US, Europe and Japan. With the real economy sluggish, some of this liquidity is overflowing into the financial markets and creating an inflation problem in this arena. **The US Federal Reserve has now reduced short-term interest rates 13 times in this easing cycle to 40-year lows, and it is possible that they are not through yet. There have been over 200 rate reductions by central banks worldwide**. Japanese short-term interest rates are virtually zero and even their ten-year government bond yield fell as low as 0.43% in June. Persistent references by monetary authorities to the problem of deflation and the possibility of the Fed purchasing long term government bonds has also kept US long-term interest rates in a declining trend. These lower long-term rates have released an avalanche of home mortgage refinancing, a crucial feature in the US consumer's remarkable strength over the last few years.

Also aiding the consumer in this economic stimulus campaign has been President Bush's three tax cuts. **The cut in the dividend tax rate was a particularly favorable development for the long-term health of the equity market**. This expansionary fiscal policy has placed the US once again in a deficit spending mode but this seems to be appropriate counter-cyclical economic policy. Germany is also pursuing tax cuts to help boost its economy that currently seems far closer to deflationary conditions than that of the US.

Furthermore, the barely cloaked weak dollar policy being pursued by the Bush administration is also providing stimulus for the US economy. By making imports more expensive and exports cheaper, the competitive position of US companies in global markets improves and US economic growth enhanced.

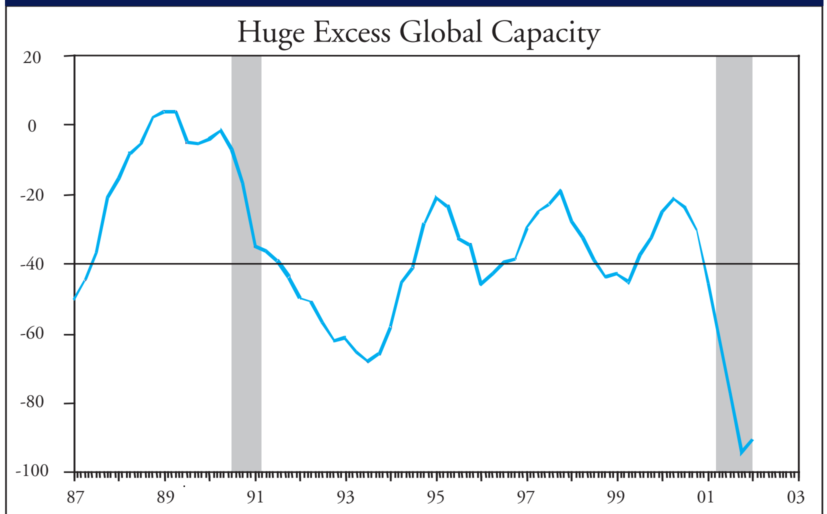
Despite these impressive efforts, the US economy and the economies of its major trading partners, remain mired in lackluster growth. Economic expansion in the US in the second quarter of 2003 was probably no better than 1.5% and is expected to be even worse in Europe and Japan. Employment trends are still relatively weak and consumers appear to have limited ability to expand their spending. There is little pent-up demand and their balance sheets are in need of repair. The best that can be said is that the "Shock and Awe" stimulus efforts probably kept us out of a deeper recession. The stock market's better performance and a recent sharp increase in long term interest rates in both the US and Japan may be early indicators that the stimulus is finally working its way through to the real economy. **The next few months of economic data will signal whether this is so, or if slow growth will continue. Wise investors should pay particularly careful attention to their portfolios at this time. If the deflationary malaise is overcome, there will be significant, long-lasting ramifications for interest rates and growth expectations.**

An Excess of Excesses

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

Defeating deflationary pressures, however, may remain difficult for monetary and political authorities alike. Weak economic growth and falling prices have been at least partially the result of a variety of excesses in the world's economic system. Many of these excesses have been building for a long time. In some cases, they have been spurred on by the economic policies mentioned earlier and in other cases by the financial market bubbles that have occurred in the last two decades. Regardless of the cause, **these excesses must eventually be at least partially corrected in order for more balanced, long-term economic growth to occur**. While the world's economy always contains a number of such anomalies, it currently seems to have more than usual, and the degree of the excesses seems particularly extreme. **Following the recent run-up in share prices, now seems to be a particularly appropriate time to give consideration to these areas of concern.**

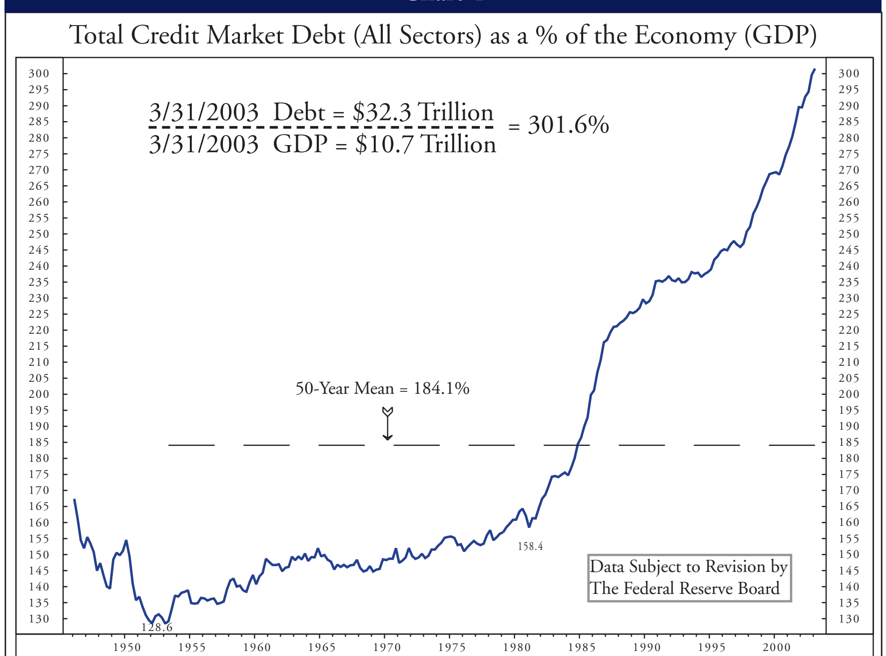
Chart 3



Source: Datastream, Merrill Lynch

The three most critical excesses present in the world's economy today are excess capacity, excess debt and excess liquidity. The capacity problem stems from too much bubble-induced capital spending, too much Chinese labor and manufacturing capacity and technological innovations that are making it easier for companies to produce more with less (Chart 3). As a result, pricing in many products remains under pressure. Even prices in the services sector of the US economy are under pressure as India increasingly is being utilized for software development and call centers. At Stewardship Partners, we have made it our practice to avoid companies that seem most exposed to these pricing pressure trends, principally those in the Materials, Industrial and Consumer Discretionary sectors.

Chart 4



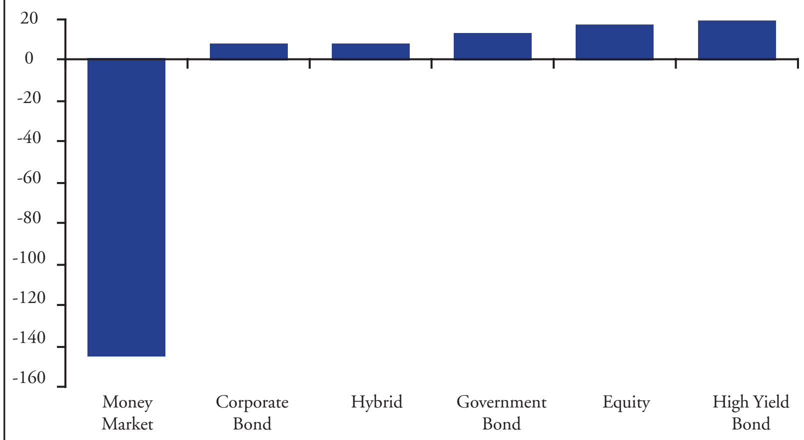
Source: Ned Davis Research

Years of uninterrupted financial success have encouraged consumers, governments and companies to pile on greater and greater amounts of debt, particularly in the US (see Chart 4). Coupled with financial innovations that have made acquiring loans easier, this has led to an explosion of debt. It is apparent that US consumers have little capacity to add additional debt to their already heavy load. This suggests that consumer spending growth rates will have to moderate until such time as balance sheets are repaired, which may keep the US and the world's economy in a slow growth mode for longer than expected.

With the central banks of the world pumping extra liquidity into the economic system to help ward off deflation, there is considerable extra cash sloshing around the world's economy. Most often, it overflows into the fixed income market and drives down yields. This is supportive of equity valuations and stocks also attract some of the excess liquidity. It can, however, be a dangerous situation that could lead to another bubble and further misallocation of resources. **With fixed income yields at all-time lows, it is also apparent many investors have chosen to move into riskier bonds to maintain income (Chart 5). Others have moved from essentially no yield money market funds to equities. This has the potential to end badly for many**.

Chart 5

Where Are The Fund Flows Going? Anywhere But Cash



Source: Datastream, Merrill Lynch

Knowing the world's central banks are aware of the risks in the system, **we expect a reasonably sharp reversal in policy once the objective of defeating deflation is secured.** Higher interest rates would likely be the first result of such a policy change and may only be realized after economic growth has clearly been revitalized. For now, however, we anticipate that inflation, interest rates and growth will likely remain unusually low and share prices may eventually move surprisingly higher, particularly for those companies able to avoid the perils of deflation and achieve above average revenue and earnings growth. Selected companies in Asia, the UK and the US appear best positioned for this environment as economic and earnings growth prospects seem weaker in Europe. Investment risks are naturally greater after stock prices have already risen but there is no requirement that any of the issues examined above will lead to a future decline in equity values. While significant risks abound, as they always do in the investment world, we have no fear of bad news, as our heart is steadfast in the knowledge that our ultimate destiny is assured.

The Most Ignored Investment Risk

"The wealth of the rich is their fortified city; they imagine it an unscalable wall." Psalm 18:11(NIV)

Most US-based investors already have some knowledge about the risks of deflation and debt but are often totally unaware that one of the greatest risks their investments are exposed to is the value of the US dollar. That the US dollar will hold its value is simply assumed, it is imagined to be an "unscalable wall". In most countries outside the US, however, investors are very aware the currency in which their wealth is denominated poses the greatest threat to their prosperity. Unlike the US dollar or some of the other major currencies, the value of money in many nations can fluctuate wildly and many fortunes have been lost as a result of a lack of currency diversification. While the US dollar has had quite a few gyrations over the years, none has been tumultuous enough for most US investors to take notice. The dollar remains the world's reserve currency and it is the unit of value in which internationally traded goods are priced. **The historical strength of the US dollar, as well as its privileged position in world economic affairs, has lulled many US investors into ignorance of the growing risks to its value and their wealth**. While we believe that, outside a very major terrorist event, it is unlikely the US dollar will suffer a catastrophic fall in value anytime soon, wise investors will seek

Table 2

High Current Account Deficits Lead to Weak Currencies

	Current Account % of GDP	Date of Peak	Depreciation (%)	# of Quarters
Australia (1989)	-5.3	Q4:1998	-21.9%	19
Canada (1975)	-5.2	Q1:1975	-15.6%	12
Canada (1981)	-4.0	Q1:1981	-15.5%	22
Canada (1993)	-4.2	Q3:1993	-16.7%	27
Denmark (1979)*	-4.4	Q4:1979	-54.3%	21
Finland (1975)*	-9.0	Q1:1974	-47.4%	42
Finland (1991)*	-5.2	Q3:1989	-35.7%	15
Ireland (1974)*	-9.1	Q2:1974	-31.3%	10
Ireland (1981)*	-13.0	Q1:1988	-44.0%	28
Korea (1996)	-5.8	Q4:1996	-37.6%	13
New Zealand (1974)*	-11.3	Q3:1974	-53.9%	35
New Zealand (1984)*	-8.4	Q1:1984	-30.8%	5
New Zealand (1997)*	-6.5	Q4:1997	-41.4%	8
Spain (1976)	-4.1	Q1:1976	-63.6%	36
UK (1989)	-5.1	Q4:1988	-18.5%	17
Italy (1974)	-4.4	Q1:1974	-67.9%	45
Average	**-6.6**		**-37.3%**	**22**
Median	**-5.2**		**-36.7%**	**20**
US (2002)	-5.2	Q4:2002		

* Annual average

Source: Global Insight, Merrill Lynch

to diversify and shield their portfolios from any weakness that may develop. **In the second quarter, for example, stocks outside the US rose 19.5% in US dollar terms but only 15.2% in local currency terms. The 4.3% difference was the result of a decline in the value of the US dollar and this was what made foreign stocks the better investment for this period of time** (the S&P 500 rose 15.4%).

Predicting future currency values has always been a hazardous business. Now, in addition to those excesses already mentioned above, **the US current account deficit has reached the extreme level of 5.2% of GDP, which greatly increases the risk of dollar depreciation**. In simple terms, this shortfall reflects the fact that the US consumes more than it produces and must borrow from foreigners to keep up its profligate ways. Currently, this deficit is being financed by substantial purchases of US government bonds by the central banks of Japan and China thus limiting the downward pressure on the dollar versus these currencies. This source of capital will need to be maintained, as the very presence of a high current account deficit is enough to scare off alternative funding sources like foreign business and portfolio investment due to concerns that any returns on such investments would be undermined by the falling value of the dollar. Table 2 highlights what has happened to other countries' currency values when they have allowed the current account deficit to reach similar levels. **While the dollar has already depreciated significantly versus the Euro, further losses could occur, as the deficit has not yet been corrected. Over the long term, however, greater losses may be achieved versus Asian currencies, thus enhancing the attractiveness of Asian financial assets to US investors. This is one reason why we continue to favor Asian equities in our global and international portfolios**.

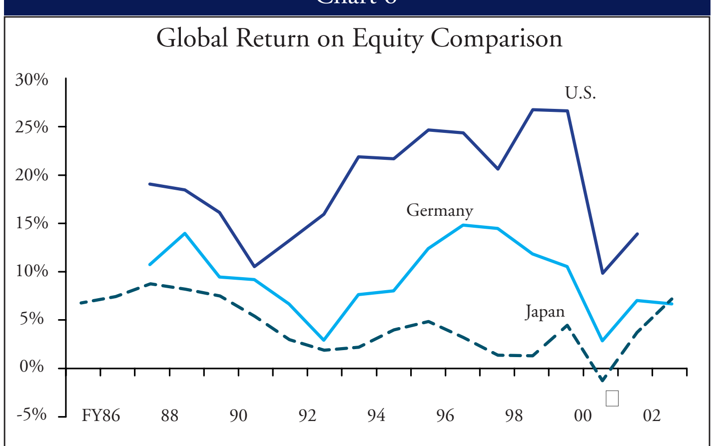
Among dollar denominated assets, US equities are one of the best hedges against a depreciating currency since companies are able to compete more effectively in global markets when the dollar declines. Moreover, most US companies' debt is denominated in dollars rather than in one of the appreciating currencies making repayment of that debt easier. Equity values almost always rise sharply versus other domestic assets in countries suffering from sudden currency depreciations since businesses usually are able to retain their value in foreign currency terms. Fixed income investments, however, typically suffer greatly as interest rates generally rise to protect the currency from further falls and bonds do not hold their value in terms of foreign currencies.

Samurai Sunrise?

"He heals the brokenhearted and binds up their wounds." Psalm 147:3 (NIV)

While considering the various investment risks confronting investors can be a worthwhile exercise, it also makes sense to reflect on new opportunities that are appearing on the global investment scene as well. As Europe and the US flirt with deflation, **could it be possible that Japan is on the precipice of exiting its long, dark economic malaise and emerging into the daylight of growth and rising prosperity?** Since 1989, the safest bet in the investment business has generally been to avoid Japanese stocks. The nation has been locked in a deflationary spiral and could never muster up the will to make the policy adjustments needed to escape its circumstances. Now, however, there are numerous signs that the economic outlook for Japan is brightening and that

Chart 6



Source: Goldman Sachs Research

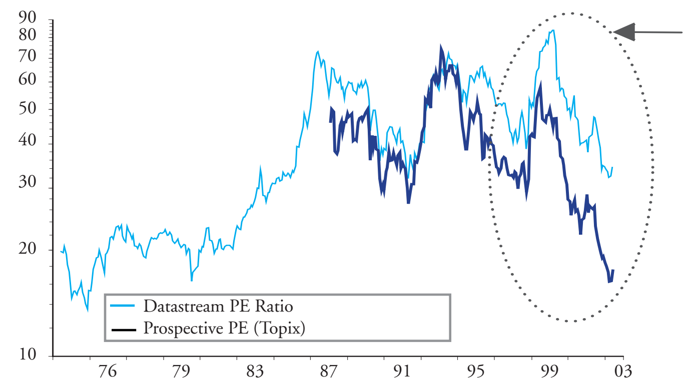
Chart 7

Source: CSFB Research

Japanese corporations are increasingly positioned for success. There are even some signs of better macroeconomic policy initiatives.

Chart 9

Trailing and Prospective Japanese P/E Ratio



Source: Merrill Lynch

Most importantly, Japanese corporate profitability has improved and may be set to approach western standards (see Chart 4). Japanese companies have finally begun to cut personnel costs significantly (see Chart 5) and have also greatly reduced the level of their capital expenditures. Furthermore, equity valuation measures have dropped to levels seen elsewhere. On some measures, such as price-to-book value, price-to-sales and price-to-cash flow, many Japanese stocks are cheaper than US or European shares. **Even Japan's P/E ratios have fallen below 20X when looking at forecasted earnings from a high in the 70X's in the early 1990's and even over 50X as recently as 1999** (see Chart 6). Dividend yields, however, remain low in comparison to the rest of the world but some see this changing as well. Free cash flow is rising sharply and is at record highs for Japanese companies. Share repurchases, which were once against the law, are also occurring with greater frequency as Japanese corporate culture moves closer to Western norms. Increased incentive compensation programs and improved corporate governance have aided this trend.

While Japan has not yet made a full transformation to a healthy economy and stock market, enough signs exist which suggest this nation's economic wounds are healing sufficiently to warrant our interest. Over the next ten years, investors in Japanese equities may move from being "brokenhearted" to renewed prosperity. Japan also stands to benefit from China's growth over the longer term, and its currency could well appreciate versus the US dollar over time. **We plan to look closely at Japanese companies again to determine which, if any, may qualify as the emerging leaders in providing shareholders superior profitability, profit margins, growth and financial strength**.

Back to the Future Already?

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

The initial advance in stock prices starting on March 11 was based on sound information. Earnings had long been in a recovery trend and optimism was growing that first quarter earnings would surprise on the upside. Moreover, the quality of earnings had improved following the accounting scares and bankruptcies of 2002. War fears had been more than discounted and interest rates had fallen sharply. Valuations, while not cheap, were not expensive either. As the second quarter moved on, the war was quickly won. International political spats receded, and domestic economic policy was given a strong boost from the tax cuts and rising liquidity growth.

As we begin the third quarter, however, the foundation for further gains in equity prices seems less stable. Earnings continue to improve but with the S&P 500's P/E at 19X and the NASDAQ's now over 41x, the improvement seems well reflected in share prices. Investors have not typically earned unusually attractive returns from such levels in the past, so caution is warranted on this basis alone. Additionally, the peace in Iraq is not going as well as hoped and the economy is showing only intermittent signs of responding to the "Shock and Awe" stimulus. **There are also clear indications that speculative activity is picking up**. Burgeoning liquidity, which is the consequence of the Fed's current deflation-fighting policy, seems to be ushering in the conditions for another equity market bubble. Since eradicating deflation is the Fed's primary target, Greenspan may be willing to tolerate a measure of a "bubble instant replay" to achieve his objective.

The economy is at a critical juncture. If economic activity does not pick up soon, deflation fears will quickly resurface. Investors may begin to doubt the ability of policy makers to find a new approach to fight the deflation threat that does not have disconcerting costs associated with it (massive fiscal budget deficits). The possibility also exists that the overcapacity and debt excesses are simply too large for any strategy to adequately resolve in a short period of time. Thus economic trends need to be monitored even more closely than usual in the coming months as the inability of the US and global economies to rebound sufficiently could signal longer-term anxiety for the markets.

The equity markets are also at a perilous point. Stock prices, fueled by the liquidity, are beginning to run well ahead of an appropriate fundamental underpinning. We expect upcoming second quarter earnings reports to be good but are concerned that the guidance provided for the rest of the year may not match the market's current lofty expectations. Without an obviously strong economic backdrop, we doubt many CEOs will speculate that future prospects are without blemishes, particularly given the potential for shareholder lawsuits and SEC investigations should they prove overly optimistic. As a result, the market could potentially be facing, at a minimum, a short-term consolidation phase. The risk/reward equation, both short term and long term, currently seems to be weighted more toward the risk end of the spectrum. Therefore, we believe it is best to maintain a cautious stance until we can predict with greater clarity that an economic recovery strong enough to boost corporate earnings significantly is probable.

As we await evidence that a normal pace of economic growth is returning, our desire is that you will continually fix your eyes on the far more important matters of your eternal destination and our Lord's kingdom here on earth. Achieving superior investment returns while employing a Christian Worldview Investing approach is good stewardship of what the Lord has entrusted to you here on this earth but walking in a close personal relationship with our Lord and Savior Jesus Christ, being guided by the Holy Spirit and inspired by the wisdom of the bible – these should be our highest priorities. We trust you will indeed be joyful in hope for the heavenly home that awaits you, patient in any affliction that we might suffer in this world and faithful in prayer for the unsaved, the weak, the poor and the persecuted.

Our Ultimate Goal - Funding The Lord's Work

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

It is our hope that Stewardship Partners' ability to produce wealth for you will help you to share with God's people who are in need and help fulfill the great commission. Our non-profit 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 25,000 other monthly visitors to our ministry's web site at www.MinistryWatch.com, the internet's top site for donors to Christian ministries. Search through our extensive database of over 500 ministries to find those that the Lord may lead you to support or to review our work on those ministries you already support. For each ministry, our Full Reports have information about the organization's history, its statement of faith, its program accomplishments, current ministry needs, its Financial Efficiency Rating and financial Transparency Grade and its financial statements. **Through the ministry of Wall Watchers, we trust that we can help you bless those Christian ministries that are doing so much to spread the good news of the gospel and meet the physical and spiritual needs of God's people**. Should you desire to have someone show you how to best use the www.MinistryWatch.com site, please contact Jim Batten at 704-841-7828 or jbatten@wallwatchers.org. We would be very pleased to be able to help you help God's people who are in need. Jim would be happy to sign you up for our monthly e-mailed newsletter, MinistryDirect, should you have an interest. You can also sign up yourself on our web site. Wall Watchers also offers a weekly e-mail newsletter with updates from our stewardship education site www.theGoodSteward.com.

In addition to www.MinistryWatch.com, there are many other resources available for the discerning donor on the internet. All of the sites listed at the end of the letter in some way contribute to the growing Ministry Marketplace, similar to the financial markets, where donors and ministries can exchange and access information easily so that giving is easier and more effective.

A ministry listed on this site that is of particular note is Generous Giving (www.GenerousGiving.org). This organization, an affiliate of the Macllelan Foundation, which has so faithfully served the Lord through its generosity over many decades, seeks to inspire others to experience the joy of giving by motivating God's people to embrace Biblical generosity. This ministry's web site offers a substantial collection of books, sermons, Biblical commentaries, testimonies and even cartoons on the subject of giving generously. We recommend that you visit this site and also that you sign up for their monthly e-mail newsletter. Make sure you also stop by the Generous Giving Marketplace where hundreds of Christian ministries list their needs as they seek to serve the Lord in accordance with their calling.

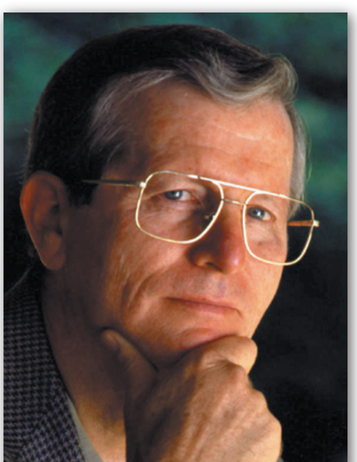
MinistryWatch.com Highlighted Ministry - New Tribes Mission

Worthy to be added to your "Eternal Portfolio"

New Tribes Mission is probably best known for Martin and Gracia Burnham who were taken as hostages by Islamic terrorists in the Philippines in 2001. After being held in captivity for more than a year, Gracia Burnham was rescued but Martin was killed inadvertently by the Philippine army. **The Burnham's were two of over 3,000 missionaries sent out under the auspices of New Tribes Mission and the missionaries' local churches to evangelize previously unreached tribes, translate the Bible and establish indigenous churches**. New Tribes missionaries have come from 25 different countries and are currently working in 27 countries covering 201 separate language groups. The organization has been in operation since 1942. Due to the organization's long experience, missionaries use time-tested methodologies for reaching people who have never before heard the gospel. In some cases, New Tribes has seen entire villages receive Jesus as their Lord and Savior. Missionary training is rigorous and New Tribes missionaries are fully responsible for raising their own support, thereby keeping the ministry's fund raising costs to a bare minimum.

New Tribes' has freely shared its audited financial statements with MinistryWatch.com, although it has no legal requirement to do so, and thus has received an "A" Transparency Grade. **It also receives a Four Star Financial Efficiency Rating (out of a potential of five stars). It's low fund raising cost ratio and its higher than average program spending are primarily responsible for its above average financial efficiency**. General and administrative costs at 14% of revenues, are similar to the average ministry in the MinistryWatch.com database. Out of 457 ministries in the database, New Tribes ranks 84th in terms of financial efficiency. Additionally, it ranks 19th out of the 89 Foreign Missions organizations in the MinistryWatch.com database. Given the high risk, difficult work of New Tribes Mission, the demonstrated financial efficiency should encourage donors. More importantly, they are clearly very devoted to carrying out the Great Commission and appear to have the Lord's blessing on their efforts. Should you be interested in further information about New Tribe Mission, please see our Full Report by clicking on the following link or copying it into your browser: **http://www.ministrywatch.com/mw2.1/F_FullRpt.asp?EIN=396024926**

Tribute to Larry Burkett - Stewardship Pioneer



Larry Burkett, a pioneer in the field of Christian stewardship, went to his eternal home with our Lord on July 4, 2003. Larry founded Christian Financial Concepts in 1976 to minister to God's people on the subject of what the Bible taught us about financial matters. Over the years, he touched millions of lives through both his radio programs heard on over 1,000 stations nationwide and via his more than 70 books. Countless marriages were saved by couples incorporating the Biblical truths Larry so effectively communicated about budgeting, paying down debt and financial affairs in general. Moreover, the Lord's work was strengthened as financially secure Christians gave more than they otherwise could have to ministries and churches.

Larry also endorsed Christian Worldview Investing in his September 2002 newsletter saying, "We need to be careful about what our investment dollars are supporting. Some companies that typically offer strong profits prey on the weaknesses of others—gambling enterprises are a good example. Christians need to think twice about investing in any company that would be deemed socially unethical. My advice is to stay away from any company that makes money from activities that are morally reprehensible."

While Larry's influence will be sorely missed in the Christian community, his legacy will live on through the well-staffed ministry he helped to build. By taking the step to merge Christian Financial Concepts with Crown Ministries to create Crown Financial Ministries, **Larry acquired the wisdom of another pioneer in the field of biblical stewardship, Howard Dayton. Under Howard's able leadership, Crown Financial Ministries is sure to honor Larry's efforts by remaining faithful to the ministry's calling to educate**

and serve the Lord's people in the area of their finances. With the Lord's blessing, Crown will reach the 300 million people Larry felt it was called to teach over the next decade. Stewardship Partners extends its condolences to the Burkett family and the entire Crown team.

Christian Worldview Investing (CWI) in Action

Stewardship Partners is a leader in the field of investing with a Christian perspective. Rusty Leonard, CFA, Stewardship Partners' founder and CEO, practiced this investment philosophy while managing over $3 billion of assets as a portfolio manager from 1989 to 2000 with the Templeton organization. He also had the privilege of working directly with the world-renowned global mutual fund manager, John Templeton. **By employing a Christian worldview approach to investing, Stewardship Partners seeks to achieve long-term capital gains through ownership in securities of companies that are a blessing to mankind**. Conversely, we seek to avoid profiting from owning companies that are engaged in sinful activities that bring physical and spiritual loss to our fellow man. If Jesus were a carpenter in today's world, we believe he would pursue just such an approach in any investments he might have, due to His great love for His creation. Below you will find an example of both a company that we own in some of our client's portfolios that exhibits exemplary Christian character and one that we avoid in our desire not to be supportive of harmful enterprises. Furthermore, we carry out research into the character of the various countries we invest in on behalf of Stewardship Partners' clients. **We believe that, in the long run, both countries and companies that most align their activities with biblical principles will achieve the greatest success**. The results of some of our research can be found below. Research on corporate business activities and global trends in areas of interest to Christians is carried out by an affiliate of Stewardship Partners, the Institute for Christian Worldview Research (ICWR). Our friends at American Values Investments (www.amvalues.com) provide us information on the positive values many corporations embrace.

Special Offer

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

AFLAC – Much More than an Frustrated Duck!

AFLAC, one of our holdings in our Domestic Leader Portfolios, is well known for its television commercials featuring a duck quacking out the company's name to people who do not seem to hear it. **What most do not realize, however, is that this is a company that has promoted family values and is very charitable**. While not a company identified directly as Christian, it does operate based on Judeo/Christian values. Included among these is the support that the company provides its employees, 70% of whom are women. Many are single mothers. The company has one of the most extensive on site child care facilities and has a liberal personal time-off policy. Dan Amos, AFLAC's CEO, has stated that if you "give your employees everything they need to succeed, they will give everything they can to help the business succeed." Working Mother magazine has awarded AFLAC a spot on its "100 Best Companies for Working Mothers" list and the company has received similar awards from Hispanic and Computerworld magazines.

AFLAC has also generously supported a variety of values oriented groups and has placed a particular emphasis on giving to cancer research. In recent years the company has pledged nearly $20 million to a variety of cancer research centers.

AFLAC is a leader in the insurance industry providing shareholders with high and steady returns for many years. Its principal source of income comes from the company's Japanese operation where it insures one in four Japanese households. It is making better inroads in the US as well as a result of its now famous duck commercials. With the Japanese economy beginning to look more sound, the company may be able to continue its long track record of success.

AOL Time Warner – Sponsoring Abortion, Pornography and the Homosexual Lifestyle

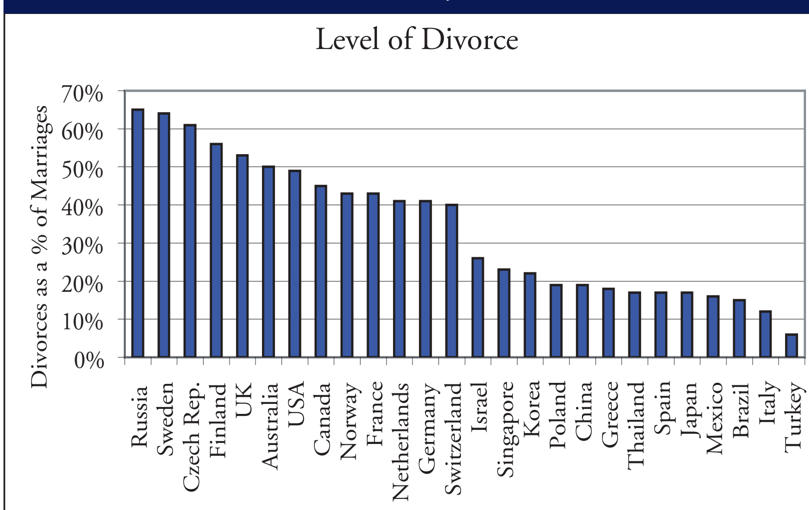
AOL Time Warner has one of the highest negative rankings in the ICWR database. It has contributed to Planned Parenthood, the leading abortion provider in the US and the leading advocate for keeping abortion legal. Additionally, AOL Time Warner is a producer of pornography through its racy HBO productions and also is a distributor of hard core pornography cable TV channels through its Time Warner cable TV unit. The company is also one of the nations foremost promoters of the sinful homosexual lifestyle through its programming, via dollars spent in advertising in homosexual magazines and through outright monetary support for homosexual activist groups. Its Warner Music division has also produced a substantial number of recordings with morally reprehensible lyrics. As a result of the company's unusually large support for these sinful activities, Stewardship Partners will not invest in the shares of AOL Time Warner for our client's portfolios. **Ownership in AOL Time Warner securities would put Stewardship Partners and our clients in a position of seeking to profit from an organization that has gone well out of its way to support behaviors that destroy lives and families. Our desire is to promote righteousness and restrain evil wherever possible. We also want to share the love of Jesus Christ with the lost and to be a blessing to our fellow man**. By investing in AOL Time Warner we would actually be helping to undermine all of these noble goals.

Global Trends

Another facet of our research at Stewardship Partners is measuring the character and spiritual atmosphere of the various countries in which we invest our client's assets. John Templeton said that investing in countries where people are diligent and thrifty produces the best long-term investment results. We have extended this line of thought to include many other areas including a comparison of divorce rates across the world (Chart 9) and national spending on education (Chart 10). **In the long run, we believe that countries, companies and individuals who follow Biblical principles will reap greater blessings than those that flaunt such wisdom**.

Chart 9 highlights the percentage of marriages that end in divorce in a variety of countries. The Bible speaks clearly that divorce is wrong and only leaves the door open to taking such an action in the case of infidelity. The data in the chart indicate that divorce has a much higher probability of occurring in North America and Europe versus Asia and Latin America. Affluence may be one of the reasons for higher divorce rates in many wealthier countries as women are able to support themselves outside of marriage. Legal encumbrances to divorce have also been lowered in many modern economies thereby increasing the likelihood of divorce. **There is little doubt that healthy marriages lead to a stronger society and the high and rising divorce rate around the world is not a healthy indicator for children and families. We have not seen studies tying divorce or family strength to economic performance but we are relatively certain that weak family structures are a burden on the long-term performance of any economy so afflicted**.

Chart 9

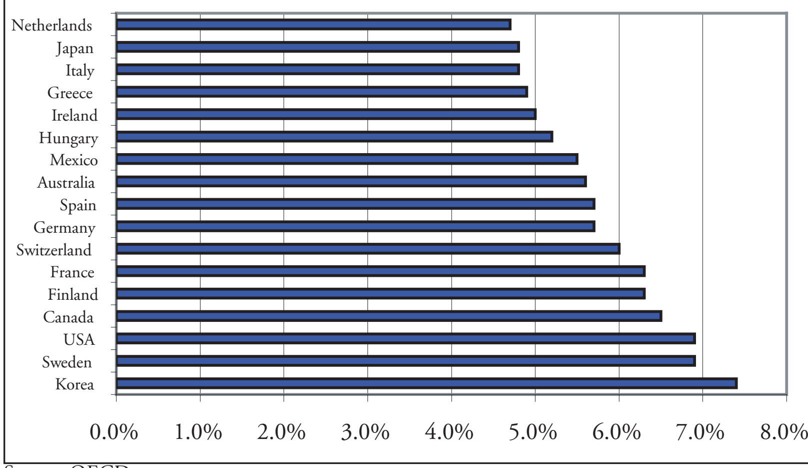


Source: Divorce Magazine

Governments would be wise to take policy actions that would have a positive impact on marriage stability such as the US has recently done in reducing the marriage penalty in the tax code.

Chart 10

Expenditures on Education



Source: OECD

The amount a nation spends on education can also contain information about its long-term economic prospects. An educated society is almost guaranteed to be much more productive than an uneducated one. Chart 10 highlights educational spending levels as a percent of GDP. The chart does not comment on the quality of the educational spending. **Korea's presence at the top of the charts is a good indicator for the country's continued strong economic development**. Northern and Central European countries as well as North America spend more than Southern European countries. Netherlands at the bottom of the list seems to be an oddity and Japan's low rank may be partly a reflection of the fact that not as many females attend college as in other nations.

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

List of Ministry Marketplace Participants

Below are a list of organizations and their websites where you can go to find out more about the services that these organizations offer to help you give as wisely as you invest. We trust that you will avail yourself of these opportunities, many of which are free, to improve your giving and help the cause of Christ.

An overview of the resources available for Christians to service all aspects of their giving and investing needs can be found below. While the list is not exhaustive, it comprises some of the most prominent organizations who can help you direct your money in building up the kingdom of God! (Click on name for web page.)

WHY

give to Christian ministries?

Teaching on Christian Stewardship:
- Crown(crown.org)
- Eternal Perspectives (epm.org)
- Generous Giving (generousgiving.org)
- Royal Treasure (royaltreasure.org)
- Sound Mind Investing (soundmindinvesting.com)
- The Gathering (thegathering.org)
- TheGoodSteward.com (thegoodsteward.com)

HOW

give with a discerning mind?

Professional Advisors:
- CFPI (christianfpi.org)
- Christian Community Fdn (thefoundations.org)
- Nat'l Christian Fdn (christianfoundation.com)

Donor Advisors:
- Calvin Edwards & Co. (no website)
- Gordon Loux (mygivingcoach.com)
- Legacy (philanthropyatwork.com)

WHERE

invest in kingdom ministries?

Ministry Research:
- ECFA (ecfa.org)
- Generous Giving (generousgiving.org)
- Geneva Global (genevaglobal.com)
- MinistryWatch.com (ministrywatch.com)
- Newdea (newdea.com)

Ministry Mutual Funds:
- Nat'l Christian Fdn (christianfoundation.com)

Online Donation Services:
- Network For Good (networkforgood.com)

Knowing Jesus Christ as Your Lord and Savior

While most of those reading our quarterly market commentaries will have already established a personal relationship with Jesus as their Lord and Savior, it is very likely that many will not. If you are someone who has not yet turned your life over to your Creator, we would have failed you miserably if we presented only information relating to your investments yet did not share with you the most important information of all: truths which have eternal significance for your soul and that will have an overwhelmingly positive impact on your life on this earth.

The gospel message is a simple one, far less complicated than the Federal Reserve's valuation model or the problems in the Japanese banking system. For most people, the first part of it is easy to relate to: you are a sinner. If you are anything like the rest of us (and you are) more often than you probably would like to admit, you either do, say or think something that is clearly wrong and which you are ashamed of. "What's the big deal", you might say. "If everyone has this problem with sin, can't we all just accept the fact and try our best to get along?"

Well, on this earth, that is exactly what we try to do. We forgive one another's faults and press on with life. From an eternal perspective, however, there remains a problem. Our Creator, who loves us with a love that can only be described as extravagant, has prepared an eternal home for us that He very much desires to share with us. Unfortunately, in our sinful state, we are unable to enter into heaven, which is by its very nature perfect. Desperate to be united with us for eternity, our God devised the only possible solution – a divine exchange. He sent His very own son, who was perfect and thus without sin, as a sacrifice to pay the penalty for our sins. In this exchange, Jesus bore through His death all of our sins that we, in turn, could receive all the glory that was due to Him. He was made sinful while we were made perfect and, in our now perfect state, we are able to enter into the eternal home our Lord has prepared for us.

What then gives each of us access to participate in this divine exchange? By responding to this incredible demonstration of extravagant love by our God through an amazing act of your own. As you let the realization of just what your Lord has done for you filter through to your heart, mind and soul, you will unavoidably desire to humbly come before Him, acknowledging that it was your sin that led to His sacrifice and recognizing His Lordship in your life. And with this step of faith, the divine exchange is completed in your life and along with it the assurance of eternal life with a Lord whose love for you knows no bounds. If you have not done so already, we encourage you to take this time to contemplate the issue of your eternal destination and to take that step of faith that will make all the difference in your life, both now and eternally. Based on my experience and the experience of literally millions of others throughout history, it is the most satisfying, enriching and worthwhile choice you will ever make. Years of wonderfully inspiring spiritual growth await you and, if the Bible ever seemed confusing to you in the past, you will now find its wisdom leaping off the pages and into your heart.

If we at Stewardship Partners can be of any assistance to you in this all important matter of your eternal destiny, please do not hesitate to contact us.

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