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# Paranoia Grips the Financial Markets

***"He who guards his mouth and tongue keeps himself from calamity" Proverbs 21:23 (NIV)***

Wall Street needs to see a psychiatrist. While that may not be all that unusual, investors – or perhaps more accurately, traders - found themselves consumed with fear during the second quarter. While the quarter got off to an auspicious start, the debt crisis in Greece that had been percolating all year suddenly put a fright into the markets. Greece's problems are very real, but it was not long before many were warning of the imminent demise of the Euro (Chart 1) because of the potential spread of this relatively small country's problems. Moreover, most of the market's decline came after the EU already put forth a $1 trillion fund to save both Greece from an impending default and some European banks from potentially crippling losses. The markets then briefly came to their senses in early June as the rather preposterous notion of an immediate and calamitous European economic collapse was easily discredited by the fact that nothing remotely like that actually happened. Trader paranoia then turned in a new direction. Hot on the heels of breathless CNBC anchors making false claims that Greece was in flames came a sizable overreaction to some economic reports that indicated the economy was slowing down. Soon, many market prognosticators were jabbering fearfully about a dreaded "double dip" in the global economy. That the data did not yet offer much support for this theory did not prevent many traders from clinging to yet another possible calamitous scenario for the markets. Once again, however, truth seems to have won out over fear. Like the much improved value of the Euro, the financial markets have also begun to more accurately reflect reality in July.

**Chart 1**

Rumors of the Euro's Death Were Greatly Exaggerated

Euro/US$ Exchange Rate


Source: Strategas

**Table 1**

**2Q10 & YTD Returns**

| US Indices | 2Q10 | YTD |
|---|---|---|
| S&P 500 | -11.42% | -6.65% |
| S&P 500 Citigroup Value | -11.57% | -5.29% |
| S&P 500 Citigroup Growth | -11.28% | -7.99% |
| NASDAQ* (price only) | -12.04% | -7.05% |
| S&P 400 (Mid Cap) | -9.58% | -1.36% |
| S&P 600 (Small Cap) | -8.73% | -0.89% |
| Treasury Bonds | 13.47% | 14.26% |
| High Grade Corp. Bonds | 8.39% | 10.37% |
| Gold | 11.52% | 14.39% |
| **Global & International Indices** | | |
| MSCI World | -13.26% | -10.88% |
| MSCI EAFE | -14.91% | -14.72% |
| MSCI Euro | -19.45% | -24.49% |
| MSCI Far East | -9.38% | -3.69% |
| MSCI Japan | -10.15% | -3.57% |
| **US Economic Sectors** | | |
| Energy | -12.74% | -12.20% |
| Materials | -15.31% | -12.87% |
| Industrials | -12.31% | -0.84% |
| Consumer Discretionary | -10.89% | -1.58% |
| Consumer Staples | -8.13% | -2.79% |
| Health Care | -11.79% | -8.79% |
| Financials | 13.33% | -3.67% |
| Information Technology | -12.24% | -10.57% |
| Telecom | -4.23% | -8.37% |
| Utilities | -3.74% | -7.14% |

Source: Merrill Lynch, MSCI, NDR, Strategas

That reality is that Southern Europe does have a significant sovereign debt issue to deal with, but global economic catastrophe is hardly the certain result many apprehensive traders seemed to expect in May. Similarly, many trustworthy economic models of recession probabilities show virtually no chance of a renewed recession in the US anytime soon. One can only conclude that traders are still suffering from post traumatic stress syndrome from the truly perilous situation the markets faced in late 2008 and early 2009. Irrational or not, these frightened traders knocked more than 16% off the S&P 500 before stocks began to recover. The sell-off was particularly vicious just as the quarter came to close. Equities around the world fell by more than 11% during the quarter (Table 1). What is more remarkable is such a sharp drop in share prices occurred during a quarter when corporate earnings are expected to rise by 35%. The market's overdone paranoia in the face of strong earnings growth means stocks are now significantly cheaper than previously.

Stewardship Partners' Global Equity, Global Rising Dividends, Global Shield, International Equity and International Concentrated Equity portfolios all surpassed their indices during the quarter due to mainly to our significant underweighting of European shares. For the year-to-date period, almost all of our equity portfolios remained ahead of their benchmarks. We encourage you to go to www.StewardshipPartners.com to download our Investment Strategies Handbook, which contains all the details on our recent and longer-term performance along with the appropriate disclosures.

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# Fears of Sudden Catastrophe are Usually Overstated

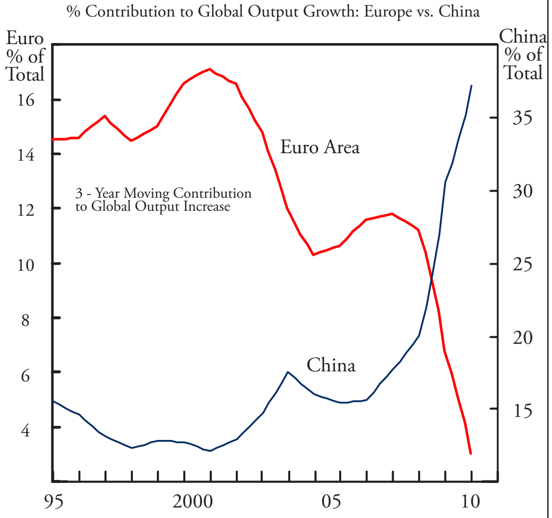
*"Have no fear of sudden disaster or of the ruin that overtakes the wicked." Proverbs 3:25 (NIV)*

We readily acknowledge investment risks are greater than normal. Whenever debt levels are high for individuals, companies or countries, unforeseen developments can quickly destabilize the situation. Financial leverage always accentuates risk (and returns as well). Therefore, it is somewhat understandable when skittish, short-term traders, who now appear to dominate the financial markets, react in a "sell now, get the details later" manner at the first appearance of headlines intentionally created to inflame rather than inform. While such behavior can be frustrating to more sober-minded investors, it does create better opportunities to position a portfolio for more significant long term gains. Indeed, at Stewardship Partners, we are trying to not be overly annoyed by the increasingly irrational and volatile behavior of the markets, but thankful for it. These market overreactions should help us generate better investment returns for our clients over the long term, even if they hurt our portfolios in the short term. In the end, the truth always wins. The markets rising paranoia may well prove to be a blessing in disguise.

**Chart 2**

Europe No Longer a Big Factor in Global Economic Growth

% Contribution to Global Output Growth: Europe vs. China




Source: BCA Research

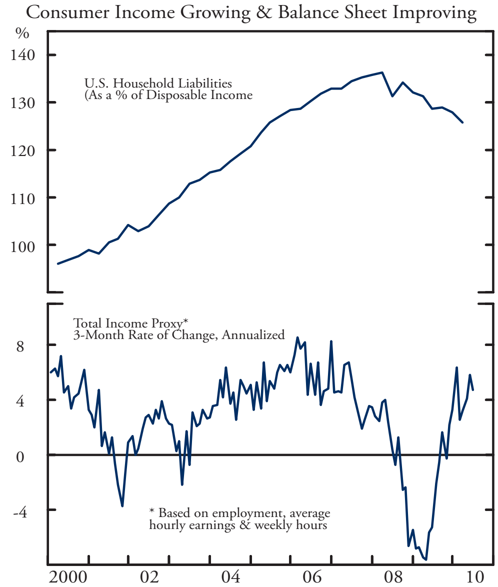
Anxieties concerning Europe's purportedly imminent demise hit their crescendo in late May. While these fears have dissipated, concerns remain. Europe does indeed have some significant issues to work through, which is one reason why we have relatively few European shares in our Global and International portfolios. As with most rumors, there is an element of truth in the concerns investors express about Europe's economic prospects. Due to the economically underperforming southern European nations and the excessive debt levels found in these countries, Europe as a whole is likely to suffer much slower growth in the years ahead. Nations like Portugal, Italy, Greece and Spain, the so-called PIGS, are more likely to fall back into recession as they struggle to restructure their finances. Central and Northern European countries, however, are likely to greatly benefit from the lower value of the Euro given the high export intensity of their economies. While Greece's massive debt, and perhaps Spain's and Portugal's may eventually need to be restructured, this would likely occur in a more orderly fashion over a longer time period than the market's had assumed during the May panic. We acknowledge this process could potentially get ugly, but perceive the risk of this happening to be much lower than paranoid traders had assumed. The European Economic Union, in concert with the IMF, has already put in place a $1 trillion backstop precisely intended to avoid a chaotic collapse in highly indebted southern European countries and the banks that serve them. Additional actions by the European Central Bank (using the US Fed's playbook that proved successful in staving off financial collapse here) will also be taken, if needed. The European bank stress tests which recently yielded surprisingly good results are a good example of such programs in action. While we believe it is very likely a significant European financial collapse will be averted - and the Euro's recent strength indicates the markets are also coming around to this opinion as well - we do not expect this region of the world to contribute much to global economic growth in the next few years. Of course, as shown in Chart 2, this has been increasingly true in recent years anyway. Investors should be more concerned with the economic prospects of China, which has accounted for more than a third of global economic growth recently, when contemplating the prospects for future investment success. Fortunately, China's exports are booming again, it has started to revalue the Yuan higher (which could meaningfully help address global economic imbalances if they are sufficiently aggressive) and its economic growth rate is expected to only slow to a still very robust 9-10% range in 2010. Trader's unjustified panic concerning Europe's debt problems leading to an immediate worldwide financial market debacle already appear to have been wildly overstated.

We suspect recent angst over the likelihood of a double dip recession will also prove to be over-inflated. Indeed, the financial market reaction to the European debt issue may have actually helped reduce the risk of a double dip and certainly has made life easier for central bankers. Prior to the onset of these concerns, interest rates were about to breakout on the upside in a signal that economic growth was getting too strong too soon. To the extent that Chinese policy actions to cool their economy - particularly their red-hot real estate sector - and European debt issues reduced global growth expectations to a more moderate level, the longevity of the current economic recovery may actually have been extended. For the moment, at least, the pressure on most G-7 policymakers to raise interest rates to cool too rapid growth has been completely relieved. Renewed deflation concerns have lowered global interest rates to levels that are very supportive of future economic growth, particularly in the emerging markets, Australia and Canada where the banking systems remain sound and low interest rates can more easily translate into improved economic activity.

Chart 3

Double Dip Not Likely

Consumer Income Growing & Balance Sheet Improving




Source: BCA Research

While it would be unwise to completely discard the possibility of a double-dip recession, we do believe a careful examination of the facts reveal it is more trader paranoia than reality. Very weak housing numbers post the expiration of government incentives followed by a number of other slightly disappointing economic reports were all that it took to get the panic started again at the end of the second quarter. The bad housing numbers should not have been surprising given all the demand that was pulled forward by the now-expired incentives. And other economic readings were likely biased temporarily lower by the suddenly shrinking activity in the housing market as well. While the US consumer's deleveraging will restrain spending, Chart 3 also shows income growth has been strong. It is hard to see a recession as a serious possibility as long as employment is improving and income is growing at reasonably high rates. With capital spending rebounding, employment growth poised to accelerate and continued fiscal stimulus, we may once again be more concerned about too rapid economic growth before too long. Indeed, the IMF just raised its forecast for global GDP growth in 2010 from 4.2% to 4.6% and second quarter corporate earnings reports have given no hint of weakening trends in the global economy. Many companies have actually raised second half 2010 earnings guidance, thereby highlighting confidence in continued economic expansion. Even European economic reports have indicated little or no evidence of impending doom in that region. Finally, we have no doubt that the world's central banks would react very speedily to combat any indication of renewed recessionary pressures, should they arise.

## Maybe We Should be Paranoid!

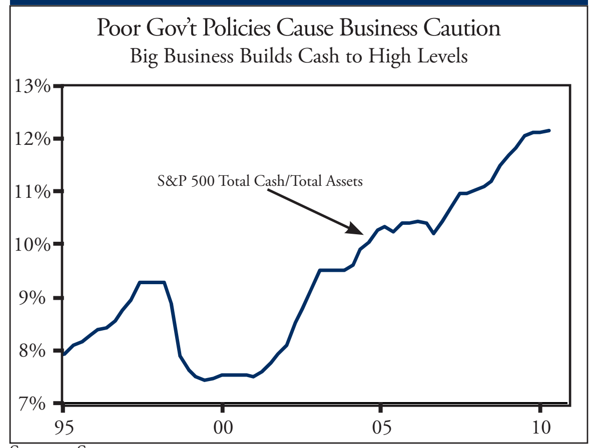
***"In the midst of his plenty, distress will overtake him" Job 20:22 (NIV)***

Even if traders have been needlessly paranoid about a disaster scenario developing from the European debt crisis or the potential for a double-dip recession in the US, perhaps their paranoia is not wrong, just misplaced. There are many places in the world where real trouble could emerge. For example, should China's real estate bubble create economic chaos in its economy, the consequences for global growth might be far more troublesome than any difficulties emanating from Europe. China has certainly taken heavy-handed steps to quickly bring its real estate bubble to an end, but some wonder whether its tough actions will cause too much collateral damage in its economy. While this is still playing out, we believe real estate represents a small enough portion of the Chinese economy to suffer through its own troubles without unduly affecting the overall economy. Moreover, China's Communist government does not face political opposition and, therefore, it can and does quickly alter its policies when necessary. Nevertheless, this is an issue which we are closely monitoring just in case something more serious begins to develop. So far, so good.

Another region which could potentially falter and lead to global financial market stress is Japan. Japan has been a festering deflationary sore for two decades. Its dysfunctional government has allowed its national debt to get to astronomical levels. If it were not for the nation's historical penchant for saving, its debts would have already led to serious financing problems for the nation. Now, however, the Japanese savings rate has declined to US levels, its pension funds have become net sellers of government bonds and it economy may soon no longer be able to handle the incremental debt the government hopes to issue. If the average Japanese citizen began to lose faith in the value of the Japanese currency and sought to diversify into foreign bonds, a crippling financial crisis could quickly ensue. The impact from such a crisis, however, might not be severe outside Japan as the country is less economically integrated with other nations. Even so, it is still one of the world's largest economies and there are plenty of opportunities for financial mayhem to occur if Japan's ability to finance it debt comes into question. While such a calamity does not seem imminent, it rarely does. A famous author who went bankrupt is purported to have said when asked how he ended up in such a state, "first slowly, then all at once". We worry this could be Japan's fate as well and, therefore, are closely scrutinizing developments there for early indications of trouble. As seen in Europe, traders are becoming less forgiving of wayward government spending. Should hedge funds train their sights on Japan in an effort to highlight the country's faults and profit from the fear they can generate about it, it could lead to trouble for the world's financial markets. We own no Japanese shares in our portfolios.

While the global economy continues to heal, its recovery is taking longer than necessary. One of the main factors contributing to this slower resurgence is poor government policy as well as too much government policy. Businessmen and investors are no fools and they know when they have a target on their back. Consequently, stock prices are lower than they should be due to lower than normal price earnings ratios. Big business has also built unusually high cash balances (Chart 4) while small businesses are reticent to expand their businesses through new hiring. While poor government policy has not yet been able to halt the economic rebound, it surely has limited it as businesses have remained cautiously positioned due to the uncertainty about future taxation, regulation and the impact of out-of-control government spending. This may explain the administration's recent more friendly comments about future dividend and capital gains taxes (they are targeting increases to just 20% on both) and Congress plans to drop efforts to implement cap and trade legislation.

**Chart 4**




Source: Strategas

Another source of concern for us is the systemic risk posed by the rise in the number of short-term oriented traders. We are certain increased volatility and bizarre price action, which often seems unrelated to actual news events, is linked to the startling rise in short term trading. This has occurred in a variety of ways. First, increasingly cautious investors have shortened their investment time horizon in response to their concerns about poor government policy. Second, large Wall Street brokers now have a surprisingly ability to make trading profits literally every day. To us, this reflects a degree of control over the market in the short term. This trading power comes from their massive size, their ability to leverage positions greatly for short periods and knowledge of how other market players are positioned. These firms need to be broken up into smaller units so it is impossible for them to exercise this sort of market power. In effect, they are using their considerable advantages to extract money from the average investor. Third, the rapid growth in High Frequency Trading is also very disconcerting. Many believe that the "Flash Crash" in May can be directly attributed to this form of ultra-high speed computer trading. Essentially, these traders are able to use their computers to determine how others are positioned in the markets and use that info to trade profitably. This is nothing but an unfair private tax on the average investor and must be stopped. High Frequency Trading serves no useful economic purpose whatsoever and is simply a leech on capitalism. Finally, hedge funds employing excessive leverage and acting in unison also present a systemic threat to the markets. We have seen the results of this on many occasions already. The market crash in 2008 was made much worse by the need for hedge funds to sell their holdings immediately to pay back debts and return money to panicked investors. The rise in the price of oil to $147 a barrel in mid 2008 was also a direct result of hedge fund traders swarming into oil futures. This ridiculous situation brought the global economy to its knees for no reason other than the desire from a small number of leveraged hedge funds to use their market power to obtain trading profits. Sadly, the financial reform bill does almost nothing to address the systemic risks posed by any of these groups or several others that space limitations prevents us from addressing. Since hedge funds, large Wall Street brokers and High Frequency Traders now dominate trading, it is likely only a matter of time before some other egregious abuse of the markets takes place. The "shadow taxes" these short-term oriented investors effectively impose on rational long-term investors is slowly scaring the latter away from the markets and crippling the market's ability to promote long term economic growth. In order to achieve their short term profits, these entities are slowly killing the goose that laid the golden egg and are too often putting the whole world at risk.

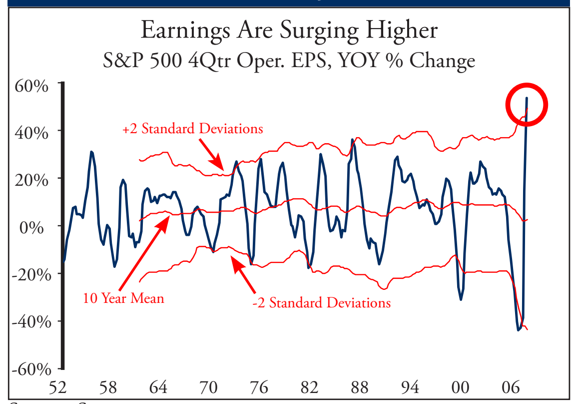
In light of these risks, and the changing financial marketplace brought about by them, we too are a bit more paranoid than previously. In the current environment, risk is clearly greater than normal. But with increased fear and uncertainty also come depressed prices and more attractive long-term return possibilities, which we would also be foolish to ignore. Investing now requires as keen a mind as ever to appropriately balance the risks and return possibilities. At Stewardship Partners, we will be working hard to stay "ahead of the curve" for our clients.

# Is Paranoia Already Priced In? What If Calamity is Avoided?

***"The man who fears God will avoid all extremes." Ecclesiastes 7:18b (NIV)***

When even we begin to feel paranoid, there is a good chance a significant low in the market either has been or will shortly be reached. As we write this commentary, the market has recovered significantly. Traders were caught with too extreme of a "short" bet and were surprised by economic reports indicating continued economic growth. Moreover, earnings season is in full swing and the results have been impressive. Corporate earnings are rocketing higher (Chart 5) and now stand more than two standard deviations away from their long term mean. Traders, sensing their own irrationality, suddenly concluded that this may not be the best time to be short! Based both on historical experience and tougher comparisons as the year comes to a close, earnings growth will certainly moderate in coming quarters. Still, analysts expect the S&P 500 to achieve earnings growth of 16% in 2011. With profit margins already nearing previous peaks, additional earnings expansion may need to come mostly from sales growth and leverage. Thus, continued economic growth will be required for current earnings expectations for 2011 to be achieved.

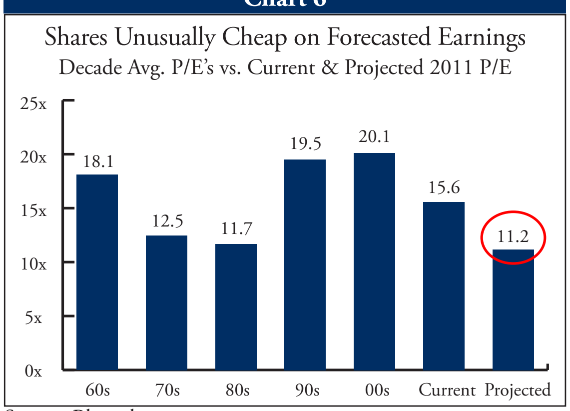
**Chart 5**




Source: Strategas

At the moment, the market clearly has serious doubts about the ability of the S&P 500 companies to produce significant earnings growth next year. Traders are barely able to think that far ahead as they remain consumed with concern about disaster lurking around every corner. While political leadership is lacking, corporate managers have done an excellent job and have surprised the doubters by producing good earnings.

**Chart 6**

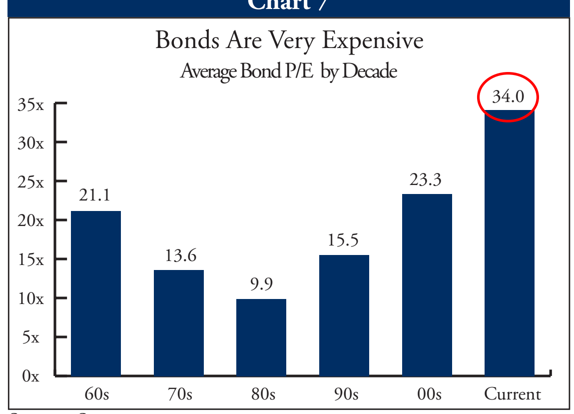



Source: Bloomberg

Distrust in future earnings are clearly reflected in low price-earnings multiples. P/E's have been contracting during most of the past decade for a variety of reasons. In the second quarter, however, stock prices fell while earnings expectations remained very strong. Traders were freaking out about macro issues, while analysts saw no reason to do likewise as the companies they covered continue to generate good results. Therefore, the P/E multiple on 2011 earnings estimates fell to just 11.2x. Chart 6 highlights this is beneath the decade average of the lowest P/E multiples seen in the last fifty years. Clearly, if a devastating event is avoided over the next year and 2011 earnings are able to come in close to current expectations, there could be significant upside in stock prices. Indeed, if interest rates and inflation expectations remain relatively low, currently paranoid traders may be surprised by just how fast P/E multiples could expand. There is so much money currently in short positions, in addition to a still massive amount of cash on the sidelines, that stock prices could easily explode higher if fear turns to greed. However, with so many macro concerns which cannot possibly be quickly resolved, any recovery in share prices is likely to be more restrained. Paranoia is a hard condition to treat and this should keep P/E's from fully advancing to more normal levels.

From current levels, stocks should also find it difficult to fall much without something occurring to cause analysts to cut their earnings expectations. With the seasonally weak period for stocks of August and September almost upon us, however, stocks may not find their footing until later in the year. Bonds, on the other hand, are clearly very expensive (Chart 7). There is very little chance bonds will offer investors rewarding returns in the years ahead. Only under deflationary conditions are bonds likely to produce superior relative returns. Extremely low fixed income yields and a strong dollar are further indications paranoia is still rampant in today's markets.

**Chart 7**



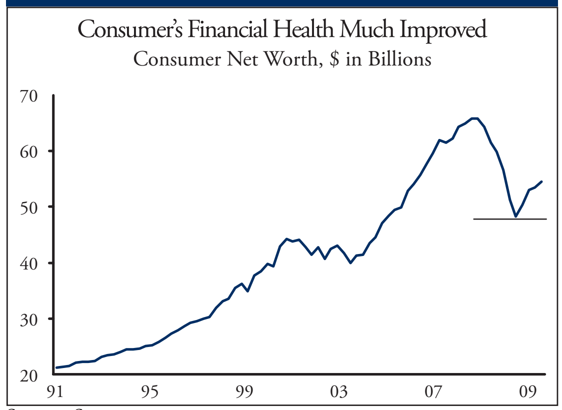

Source: Strategas

# Avoiding Paranoia Paralysis

*"Be on your guard; stand firm in the faith; be men of courage; be strong." 1 Cor 16:13 (NIV)*

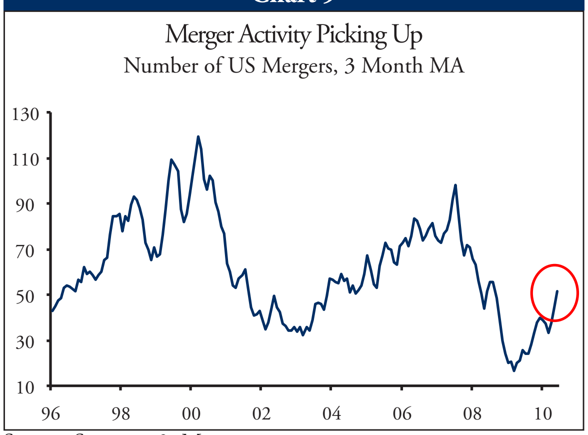
The cumulative psychological toll of two greater than 50% stock market declines in one decade, a justifiable loss of trust in both corporate chieftains and Wall Street executives and politically tone deaf leadership in Washington, DC has been very significant. These gut-wrenching events have trained investors to believe the worst possible scenario is the most likely outcome. In the last two years, we have frequently encountered investors who are consumed by the many economic dangers and are unable to focus on positive developments which are also present in the investment landscape. This is understandable given the media has a blatantly obvious bias in reporting bad news over good. One need look no further than the popular Drudge Report which regularly puts up huge headlines on days when the market falls steeply but often fails to report big market surges at all. Moreover, the media often takes it a step further and distorts the negative news they do report to look worse than it actually is. The average investor does not have a chance of avoiding paranoia paralysis when the only information they have access to is so thoroughly misrepresented.

**Chart 8**




Source: Strategas

**Chart 9**




Source: Strategas & Mergerstat

As a result, many investors – even many professional investors – have structured their portfolios to protect themselves from further losses. This is readily seen in the oddly poor performance of share prices recently while the economy and corporate earnings were clearly advancing. The collapse in bond yields and strength in gold prices also highlight the lack of investor confidence in the future. While we acknowledge many significant risks still remain, it is our belief the worst case scenario will be avoided. Furthermore, we believe this may be all that is necessary for equities to produce good returns. With most investors positioned for mayhem, the mere absence of catastrophe should produce portfolio repositioning away from extreme safety and towards equities. It is not necessary for a startlingly quick recovery in all of the risk factors to occur to generate such positive equity returns. If future economic reports are not disappointing, traders will be dismayed and will cover their over-extended short positions. The paranoia trade is now so crowded just the absence of truly sizable new trouble could initiate a multi-year advance in equity prices. Little earnings growth would be required to achieve this as rising P/E multiples alone would be sufficient to fuel a sizable move higher. Admittedly, we would expect such an advance to be bumpy as the markets will only lose their paranoia slowly over time. We just do not believe the chances of a catastrophe are as high as the market believes. Future indications of employment trends are favorable, consumer income is improving, consumers are paying down debts and their net worth has bounced solidly off the lows (Chart 8). While not wanting to underestimate the risks, we believe it is important for sensible investors to recognize the present economic situation simply is not as bad as many have been led to believe.

Given the very cash-rich balance sheets of the S&P 500 companies, we believe a significant wave of mergers and acquisitions could potentially breakout. If we are right that the worst case scenario will be avoided, an increase in merger activity which has already begun (Chart 9) may accelerate, contributing to a recovery in share prices. Additionally, as might be expected given low valuations and excess corporate cash, share repurchases have also begun to pick up as companies seek sensible means to deploy their cash hoards. This too will increase the demand for shares and support higher share prices.

Rest assured, we will not hesitate to get defensive if necessary. But a point of maximum pessimism may be near and substantial returns may be achieved for those prepared to take a balanced view of the current circumstances.

**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.**

# Biblically Responsible Investing (BRI)- Investing as Jesus Would

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

Stewardship Partners, founded in 2000, is a leader in the field of investing with a Christian perspective, a form of Socially Responsible Investing (SRI) known as Biblically Responsible Investing (BRI). Rusty Leonard, CFA, Stewardship Partners' founder and CEO, practiced this investment philosophy while managing over $3 billion of assets as a portfolio manager from 1989 to 2000 with the Templeton organization. He also had the privilege of working directly with the 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 that 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 screen out 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 screen out 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 screen out companies involved in:**
   - Alcohol, Gambling and Tobacco
   - Pornography
   - Homosexuality (those companies deemed to be the most active supporters)

4. **We want to *protect marriage and the family* so we screen out 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

**Armed with this information, we are then prepared to make as strong an effort as possible to build investment portfolios which**

**reflect our client's biblically-based Christian worldview. We obtain the 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.

***It is our hope that, over time, we and other firms like ours may be able to gather enough assets under management to influence corporate behavior in a positive manner with biblical principles and wisdom.*** As things presently stand, a biblically-based Christian message is not being heard as effectively in the corporate marketplace as it should be since the amount of money dedicated to BRI, while growing rapidly, still falls far short of that in the typically more liberally-biased SRI funds.

For a more in depth study of the topic of Biblically Responsible Investing (BRI), please see our paper entitled ***"The Scriptural Basis for Biblically Responsible Investing."***

## BRI in Action – Comparing Good and Bad Corporate Behavior

***"Love must be sincere. Hate what is evil; cling to what is good." Romans 12:9 (NIV)***

Below you will find an example of both a company that exhibits exemplary attributes, PotashCorp, and one we avoid, BP. We own PotashCorp in many Stewardship Partners portfolios while we actively avoid ownership in BP 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 – PotashCorp – Integrity, Good Governance and Charity

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

PotashCorp is the world largest fertilizer company when measured by capacity. It produces the three primary crop nutrients: potash, phosphate and nitrogen. The company is the world's largest potash producer. It controls 20% of global potash capacity and has operations in seven countries. Only twelve countries even produce potash and just three, Canada, Russia and Belarus, contain 80% of the world's supply. Potash is a vital nutrient for crop production. It helps plants ward off disease, strengthens stalks and roots and adds flavor, color and texture to foods. Most of all, it greatly enhances how much food can be produced from an acre of farmland. Since available farmland in the world is expected to halve in the period from 1950 to 2020 while the global population continues growing, achieving better crop yields, particularly in the emerging market nations where fertilizers have typically been underutilized, is very important. For example, India contains 17% of the world's population but only 11% of its farmland. Unfortunately, its crop yield ranges from just 20-50% of that seen in the US. With demand for more and better food rapidly increasing due to population growth and rising incomes, India will need to increase its use of fertilizer in the years ahead to meet the needs of its people.

PotashCorp takes its role as a key player in helping provide adequate nutrition to millions of people very seriously. Its stated core values reflect this and are among the best we have seen. These include operating with integrity, an overriding concern for the safety of people and the environment, listening to all stakeholders, seeking continuous improvement and being transparent and accountable. PotashCorp measures its success in a unique manner. In addition to measuring the creation of long term value for its shareholders, it also targets the pride its employees have in working for the company and the satisfaction of all those it does business with. The company also measures its success by the contribution it makes to sustainable human progress in the communities where it operates. This is not just idle talk meant to make everyone feel good. The company backs these high-minded goals with action. Its puts together a very transparent Accountability Report each year where it shows how it measured up to its preset goals in a variety of areas. Moreover, its Sustainability Report is the most comprehensive and thoughtful we have ever seen, going into great depth about how the company formulates and achieves these lofty goals. The company's code of conduct is also laudatory and wide-ranging. It is mandatory for all employees to read and sign the code.

PotashCorp also excels in the manner in which it treats its employees. As a mining company, safety is its highest priority. The company seeks to foster a culture of safety awareness at its facilities in a variety of ways, including embedding safety goals in all employees' bonus programs. And they have achieved success. The severe accident injury rate was reduced by 25% in 2009 when the goal was initially to reach that level by 2011. The company also seeks to provide its employees with training needed to advance their careers. Besides tuition reimbursement, the company offers internal training programs and seeks to promote from within. In 2009, nearly 90% of all staff positions were filled from internal candidates. PotashCorp offers a full complement of employee benefits including, bonus plan, savings plans, retirement plans, health plans, wellness plans, life insurance, disability insurance, College scholarships for employee's children as well as family and employee assistance programs. Perhaps most telling is how PotashCorp treated employees during a significant layoff at one facility in 2009. The company paid employees up to a year in cash severance, continued to pay their medical insurance premiums and allowed them to receive bonus payments for which they were not technically eligible. All of this exceeded what was required for the company to offer by both law and union contracts.

The company also has a commitment to supporting its communities through charitable efforts. Its goal is to donate 1% of its after-tax earnings measured by the average over the past five years. Due to difficult operating conditions in 2009, the company came up short on this goal but it still gave more than it did in 2008 - $9.5 million. The company also saw participation in its matching gift program rise by 10% in 2009 and the amount of gifts increased by 25%. The company will match an employee gift up to $10,000. One of the charities receiving funds from PotashCorp was a model farming school in Trinidad. This facility trains and equips poor farmers in how to incorporate the latest farming methods in order to enhance crop yields.

Environmental stewardship is very important to PotashCorp. It spent $263 million on environmental matters in 2009 and reduced its greenhouse gas emissions significantly as part of a multi-year plan. The company plants 30,000-40,000 trees annually as part of its land reclamation efforts. The company also trains customers to help them avoid using excess fertilizer which could run-off into nearby water systems.

***PotashCorp's good works are, of course, no guarantee of long-term investment success. As Biblically Responsible Investors, however, PotashCorp's charitable efforts, its sound corporate governance and its impressive treatment of its own employees and the environment allows us to know we are shareholders in a company seeking to be a blessing to all. While no company, like no person, is perfect, this is clearly a company that strives to be a good citizen and one we can be proud to own!***

## The Bad – BP – Human Rights and Environmental Disaster

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

BP is one of the largest companies in the world with $239 billion in sales, over 80,000 employees and operations in 30 countries. It is also one of the globe's most significant energy companies. The company has spent hundreds of millions of dollars on projects, advertising and public relations efforts to build a brand that focused on its environmental stewardship and innovation. Unfortunately, in light of the current massive oil spill emanating from one of its wells in the Gulf of Mexico, all of its efforts to build such a brand have quickly been ruined.

While we believed some of BP's attempts to convince everyone of how "green" it was were overstated, we avoided investing in the company for other reasons, specifically, its activities in dangerous nations and oppressive regimes. The company has business interests in terrorist-sponsoring nations like Iran and Syria and also operates in countries where religious and other rights are commonly trampled upon such as Saudi Arabia, Libya, Turkmenistan and Cuba. While most of these operations are small relative to the size of BP, the large number of questionable countries in which the company does business has caused us to avoid its stock.

BP also has been supportive of the homosexual agenda, but is not classified as a "Most Active" promoter by BRII.

***Excluding BP from our list of potential investments is not a difficult decision. As BRI investors seeking to please and honor our Lord, we naturally look elsewhere to achieve investment success as we do not want to be associated with a company using shareholder resources in a manner which have a negative impact on individuals and society in general.***

## Our Ultimate Goal - Funding the Lord's Work

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

**It is our hope that Stewardship Partners' ability to create an abundance for you will help you to share with those who are in need and assist in fulfilling the Great Commission.** Our non-profit ministry affiliate, Wall Watchers, provides a free service to help you educate yourself about the many wonderful Christian giving opportunities available to wise donors. We invite you to join the thousands of visitors to our ministry's website at www.MinistryWatch.com, the Internet's top site for donors to Christian ministries. Should you desire to have someone show you how to best use this site, please contact Rod Pitzer at 866-364-9980 or rpitzer@wallwatchers.org. We would be pleased to be able to help you bless God's people who are in need. Please be sure to check out our 2009 list of our thirty Shining Light Ministry Award winners as well as our companion list of thirty ministries that are subject to a Donor Alert from MinistryWatch.com.

## Featured Ministry – AnGeL Ministries – Preaching the Word

***He said to them, "Go into all the world and preach the good news" Mark 16:15 (NIV)***

AnGeL Ministries is the ministry of Anne Graham Lotz. Anne, the daughter of world renowned evangelist Billy Graham, has for over thirty years preached the Word in venues around the world, including arenas, prison cells, churches, conferences, bible studies and seminaries. The vision stated by her ministry is "to serve God by evangelizing the lost and reviving the hearts of God's people in their relationship with Himself through exalting Jesus Christ and proclaiming God's Word". All who have heard her teach attest to the sincerity and passion she brings to illuminating the Word of God for her listeners. While not as well known as her brother Franklin, who took over the leadership of the Billy Graham Evangelistic Association from their father and who also oversees Samaritan's Purse, Anne is regarded by many as the Graham child who got the largest measure of Billy's preaching mantle. Her teaching is always solidly grounded in the Word and her ability to deeply inspire her audience is well known.

In addition to traveling the world to preach the Word, Anne is the author of eleven Christian books including "Just Give Me Jesus" and the more recent addition, "The Magnificent Obsession". The ministry also produces a daily radio program and podcast, has helpful Bible study guides and sends out a daily devotional to those who sign up at the ministry's website found at www.annegrahamlotz.com.

***AnGeL Ministries is a small ministry that effectively and efficiently distributes the Biblical teaching of Anne Graham Lotz. By leveraging not only the high quality of her teaching but also the well-known Graham name, however, the ministry has a much larger impact than its small size would suggest. Mrs. Lotz has had many opportunities to share the message of salvation on a wide variety of national TV programs. AnGeL Ministries is a 2009 MinistryWatch.com Shining Light Award winner and is worthy of consideration for your financial support.***

## The Christian Ministry Marketplace – Helping Donors Give Wisely

***"A generous man will prosper, he who refreshes others will himself be refreshed." Proverbs 11:25 (NIV)***

Much like the stock market provides for a sensible and efficient allocation of capital in our economy, the rise of a Christian Ministry Marketplace is providing donors with a myriad of helpful resources to maximize the impact and joy of giving to the work of the Lord. As donors begin to take their giving as seriously as their investing, they will find the assistance offered by the groups listed below to be invaluable. By utilizing these resources, donors are not only likely to make better personal giving decisions, but are also contributing to the growth in the marketplace itself. By so doing, they are helping to lay a foundation for wiser giving for all who follow in their footsteps. Accordingly, we encourage donors to investigate how these groups might help you to give more wisely, achieve a greater impact and create increased joy for both yourself and receivers of your gifts.

## The Christian Ministry Marketplace
### Resources for Christian Donors

**WHY**
to give to Christian ministries?

**Teaching on Stewardship:**

- Crown (crown.org)
- Eternal Perspectives (epm.org)
- Generous Giving (generousgiving.org)
- Royal Treasure (royaltreasure.org)
- Sound Mind Investing (soundmindinvesting.com)
- The Gathering (thegathering.org)
- MaximumGenerosity.org (maximumgenerosity.org)

**HOW**
to give with a discerning mind?

**Professional Advisors:**

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

**Donor Advisors:**

- Excellence in Giving (excellenceingiving.com)
- Calvin Edwards & Co. (CalvinEdwardsCompany.com)
- Kardia (http://www.kardiaplanning.com/)

**WHERE**
to invest in kingdom ministries?

**Ministry Research:**

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

**Ministry Mutual Funds:**

- Nat'l Christian Fdn (nationalchristian.com)
- Strategic Resource Group (srginc.org)

Online Donation Services:

- Network For Good (networkforgood.com)

## Featured Ministry Marketplace Participant - Strategic Resource Group

***"We carry the offering, which we administer in order to honor the Lord." 2 Cor 8:19b (NIV)***

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

There can be little question that the Middle East is a worthwhile target for SRG's and its donor partner's efforts. Despite the reputation for being among the most difficult mission fields, the Middle East is in many ways ripe to hear the good news of the Gospel. Increasingly, there are reports of the Lord working to soften the hearts of disillusioned Muslims so that many are now more receptive to the gospel than in the past. Indeed there are reports of many 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 and improve the effectiveness of your giving. For more information, go to www.srginc.org

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

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

The gospel message is a simple one, far less complicated than the global impact of rising oil prices or the effect of a revaluation of the Chinese currency. For most people, the first part of it is easy to relate to – you are a sinner. If you are anything like the rest of us (and you are) more often than you probably would like to admit, you either do, say or think something that is clearly wrong and which you are ashamed of. "But what's the big deal", you might say. "If everyone has this problem with sin, can't we all just accept the fact and try our best to get along?"

Well, on this earth, that is exactly what we try to do. We forgive one another's faults and press on with life. From an eternal perspective, however, there remains a problem. Our Creator, who loves us with a love that can only be described as extravagant, has prepared an eternal home for us that He very much desires to share with us. Unfortunately, in our sinful state, we are unable to enter into heaven, which is by its very nature perfect. Desperate not to be separated from us for an eternity, our God devised the only possible solution – a divine exchange. He sent His very own son, who was perfect and thus without sin, as a sacrifice to pay the penalty for our sins. In this exchange, Jesus bore, through His death, all of our sins, so that we in turn could receive all the glory that was due to Him. He was made sinful while we were made perfect and, in our now perfect state, we are able to enter into the eternal home our Lord has prepared for us.

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

If we at Stewardship Partners can be of any assistance to you in this all important matter of your eternal destiny, please do not hesitate to contact us. Like Jesus, we also greatly desire to share an eternal heavenly home with you!



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