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MARKET COMMENTARY

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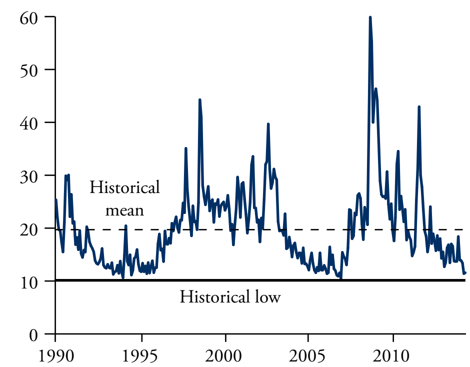
Fearless Markets Continue Moving Higher in 2014's Second Quarter

"The fear of the Lord is the beginning of wisdom." Proverbs 9:10

Global equity markets moved significantly higher in the second quarter (see Table 1), continuing an impressive bull market that has been in place since March 2009. Gains occurred in almost all markets and the advances were fairly evenly distributed. Despite the Obama presidency's growing list of troubles and disturbing geopolitical developments in Ukraine and the Middle East, stocks cast aside fear and powered higher. In our view, this was a rational response to the circumstances the markets faced. None of the concerns mentioned above, nor many others that have been raised by the wide variety of "perma-bear" market commentators, threaten the reality of moderate global economic expansion amid a background of low inflation and interest rates. This environment is typically a rewarding one for investors as corporate profits expand while central bankers are able to maintain a stance of monetary accomodation. Investors have been able to keep their focus on the moderate expansion in corporate earnings as fears of lower profits or lower valuations appear distant. Chart 1 highlights how fearless the current market has become. The Volatility Index, commonly referred to as VIX, in essence measures the intesity of investor fear and it has recently neared its historical low. This is quite a turnaround from the record fear seen in late 2008/early 2009 as well as the concern evident during 2011 when the European government debt and banking crises were threatening the world with another financial meltdown. We can all be thankful those difficulties are in the past and grievous threats to global financial system, while ever-present, are currently muted.

Chart 1

Equities Acting Cool, Calm and Collected
S&P 500 Volatility Index Reaches Historic Lows



Source: Bloomberg

Table 1

2Q14 Total Returns

US Indices	2Q14	YTD
S&P 500	5.2%	7.1%
S&P 500 Value	4.6%	7.0%
S&P 500 Growth	5.8%	7.3%
NASDAQ	5.3%	6.2%
S&P 400 (Mid Cap)	4.3%	7.5%
S&P 600 (Small Cap)	2.1%	3.2%
Treasury Bonds	1.6%	3.2%
High Grade Corp. Bonds	2.9%	5.9%
Gold	3.4%	10.1%
Global & International Indices		
MSCI World	4.9%	6.2%
MSCI EAFE	4.1%	4.8%
MSCI Euro	2.8%	4.9%
MSCI Far East	6.8%	1.4%
MSCI Japan	6.7%	0.7%
MSCI Emerging Markets	6.6%	6.1%
US Economic Sectors		
Energy	12.1%	13.0%
Materials	5.6%	8.6%
Industrials	3.9%	4.0%
Consumer Discretionary	3.5%	0.6%
Consumer Staples	4.7%	5.2%
Health Care	4.5%	10.6%
Financials	2.3%	5.0%
Information Technology	6.5%	8.9%
Telecom	3.8%	4.3%
Utilities	7.8%	18.7%

Source: Bloomberg

While enjoying the current period of minimal economic and financial turmoil, we remain vigilant in trying to anticipate developments which would undermine this blissful state of affairs for investors. It is only a matter of time before some disturbing economic challenge arises, leading to investor angst and rattled markets. What eventually causes the equity markets to correct may not even be a legitimate fear as investors have shown many times in the past that they can be scared of their own shadow. Predicting such irrational behavior is extremely difficult. While we are aware the pleasant circumstances currently blessing us will not persist forever, we do not believe the markets have yet moved from the extreme fear end of the spectrum seen in 2008/2009 all the way to the opposite end of excessive greed. Price-earnings ratios generally are somewhat above average, but hardly excessively so. Some early indications of irrational exuberance appeared during this year's first quarter (ridiculous IPO activity and valuations, for example), but this quickly corrected. Margin debt is moving higher and valuations on small cap stocks are getting worrisome, but there is not yet enough evidence of a bubble in equities. Absent an unexpected development that upends the markets, share prices stand a good chance of moving higher in the second half of 2014. Still, the ride may be a bit bumpier than it has been so far. While there is a chance we may be in the early stages of a new equity bubble, we suspect it would be difficult for one to fully develop.

As we end the first half of 2014, almost all Stewardship Partners investment strategies are outperforming their respective indices. During the second quarter, our defensively-oriented portfolios performed particularly well as investors continued to bid up the values of securities offering attractive yields. Emerging market stocks also performed well in the quarter, helping our results. We have also been encouraged by increased regulatory scrutiny of and actions against abusive speculators in the market. We suspect this has also contributed to the calmer, more sensible behavior of the markets. We are off to a good start to 2014 and hope to extend our advantage in the second half.

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Continued Moderate Global Economic Growth Looks Likely

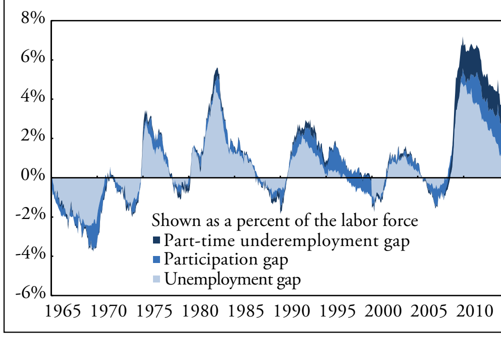
"There is surely a future hope for you, and your hope will not be cut off." Proverbs 23:18

The stock market's big rally from its 2009 panic lows and the impressive steadiness of its advance over the last two years has led many to believe the economy must be once again overheating, thereby threatening global economic growth. The truth, however, is there are few signs of overheating. Indeed, many indications of continued slack remain across the globe, not the least of which is the considerable weakness still seen in the US labor force (Chart 2). While there has been meaningful improvement in the unemployment rate in the US since the crash in 2008, when the data is adjusted for the growing percentage of part time jobs and the sizable collapse in the labor participation rate, it appears the labor force could expand quite a bit more before the Fed should become concerned about overheating. Offsetting this to some extent, however, are reports some companies are finding it increasingly difficult to find qualified candidates to fill open positions. Unhealthy wage inflation may become an issue faster than Chart 2 suggests, but it is not likely to be a big factor anytime soon. Assuming economic growth continues to expand at a moderate pace, it could take a considerable period for the labor market to become tight enough to generate inflation fears.

Chart 2

US Economy Far From Overheating

Labor Market Still Contains Plenty of Slack



Source: BCA Research, Andrew T. Levin, "The Design and Communication of Systematic Monetary Policy Strategies"

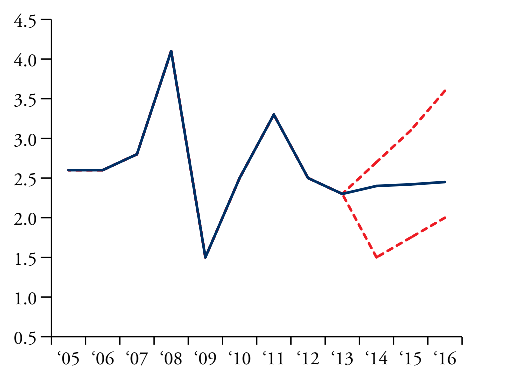
Reflecting the still relatively "cool" nature of the current moderate economic rebound, inflation expectations around the world remain low. In the US, the risk of deflation has abated and early signs of inflationary threats are now beginning to become visible. Even so, a true inflationary burst clearly is not imminent. Energy prices have risen in response to heightened tensions in the Middle East, but absent a larger scale crisis there that actually disrupts oil production significantly, this should not feed through to a wider inflationary trend. Other commodity prices have been muted in response to Europe's economic weakness and China's return to a lower, and hopefully stable, economic growth rate. With both China and Europe currently being disinflationary forces on the global economy (if not deflationary), few forecasters expect inflation to become a problem for central bankers anytime soon. Chart 3 highlights the current happily low level of global inflation while highlighting the range of possible variation from that trend in the future is relatively minor. Since inflation is typically one of the first signs economic activity is getting hot enough to require central bank tightening of monetary policies, the world's central bankers are likely now sleeping better than they have in years. Inflation is only an issue in some emerging market nations and in Japan. And in Japan, inflation is precisely what the central bank desires following nearly three decades of deflation.

Chart 3

Inflation May Rise, But Not Much

Global Inflation Rate and Forecasted Range

% Change YoY, Dotted Lines Show 95% Confidence Interval



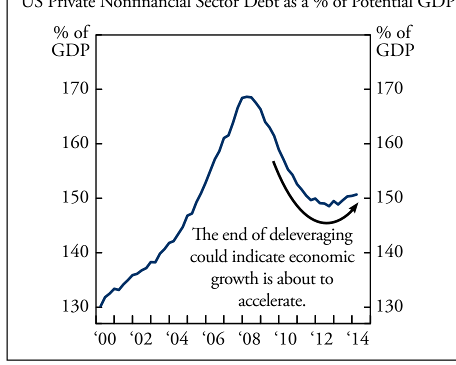
Source: Bloomberg, BofA Merrill Lynch Global Research

In the past, this combination of neither too hot nor too cold economic growth has been referred to as a "Goldilocks" economy. As the economic recovery matures, however, the risk will clearly move to the "too hot" side of the equation. Perhaps an early indication the nature of the economy has changed from the post-crash period to a more normal circumstance is growth in the demand for credit. During the extended healing process from the crash, which was caused largely by excess credit, the US economy has been deleveraging (Chart 4). More recently, however, the economy has begun to re-leverage. While still in its early stages, this could presage faster economic growth and a reduction in what is referred to as the "output gap". Offsetting this, however, are other factors arguing for a continued Goldilocks economy. First, the costs of Obamacare, on low end consumers in particular, may prove to be more burdensome than many now believe. This may limit growth in consumer discretionary spending. Additionally, younger consumers are being weighed down by massive student loans which will impede their ability to buy a new car or home until they are much older than the previous generation. Moreover, banks are still being very careful in extending mortgages to those who do not have above average credit scores (although sketchy auto loans seem

Chart 4

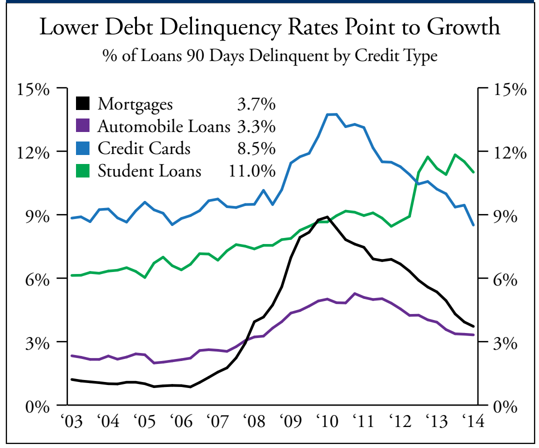
Demand for Debt Finally Picking Up

US Private Nonfinancial Sector Debt as a % of Potential GDP



Source: BCA Research, Flow of Funds, CBO to be becoming more common). It may take some time before we can accurately ascertain whether US economic growth can return to a consistent 3-4% rate. We suspect it will eventually get there, but it may take longer than many now presume. Increasing energy independence and technological advancements will likely play a big role in eventually returning the US to higher economic growth rates. Should abusive and criminal activity in the global financial markets continue to recede as enforcement finally catches up, this too will positively impact long term global economic growth.

Chart 5



Source: Bloomberg, Michael McDonough

Another signal the US economy is not anywhere near overheated is the downtrend in debt delinquency in almost all forms of credit. Delinquency typically begins to rise as the economy nears the end of an expansion and then balloons as the subsequent recession unfolds. As highlighted in Chart 5, only student loans are showing any sign of increasing delinquency at this time. The trends in every other form of credit is positive but delinquencies still generally remain above 2006 levels, the last time we experienced a Goldilocks economy.

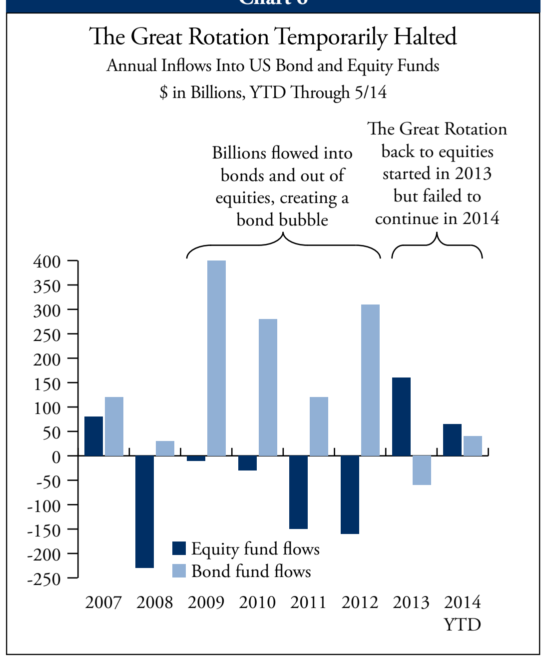
The improving economic situation in the US has allowed the Fed to gradually reduce its QE3 program without consequence to either the economy or the markets. As QE3 comes to a final end in October, it will be interesting to see how the market and the economy react. As far as the markets are concerned, much will depend on the expectation for interest rate increases. As the Fed seeks to remove all of its atypical monetary accommodation, policy changes will likely soon lift the level of short term interest rates. These actions should tend to keep economic growth moderate. Overseas, we suspect the European Central Bank will need to actually go in the opposite direction and pursue QE policies of its own in order to renew its economic vigor. In Asia, both Japan and China already pursuing a variety of policies aimed at keeping economic growth healthy in the face of serious challenges. In our view, the possibility of China's debt bubble bursting in a spectacular and uncontrollable fashion remains the greatest risk to the world financial markets. Renewed banking or government debt problems in Europe also could upend investors in the months to come. While there are always threats such as these which must be monitored, the probability of such events seem lower than they have in quite some time. Hopefully, investors will be surprised to discover the already elongated period of relative calm in the markets we have enjoyed will continue for a considerable period.

Could the US Equity Market Melt-up into a New Bubble?

"Moses saw that the people were running wild and that Aaron had let them get out of control" Exodus 32:25

Being by nature and training contrarian investors, our typical reaction to current market conditions would be increasing caution. Indeed, we have allowed cash to build up a bit in some of our portfolios recently reflecting the difficulty in finding new bargain-priced stocks following the market's long period of near uninterrupted expansion. At the same time, we have noted the possibility another bubble in equities could be near, particularly if investors abandon bonds as the economy improves in what has been referred to as the "Great Rotation". Because economic growth has recently been stunted by a rough winter, however, interest rates have moved lower and bonds have performed well in 2014's first half. As a result, while money has continued to flow into equity investments, bond funds have also seen inflows in 2014's first five months (Chart 6). Higher share prices in 2014 resulted from better earnings and higher valuations in a period of unusual economic calm rather than just a liquidity fueled expansion in valuations as investors rotated away from bonds and into equities. While investments in bonds dominated equity redemptions from 2008 through 2012, the Great Rotation back to equities which started in 2013 has been at least temporarily halted. We suspect, however, bonds will face challenges in the months ahead as economic growth may accelerate. If so, movement towards the Great Rotation could recommence thereby providing the rocket fuel needed for shares prices to move into bubble territory. Essentially, if this occurs, the markets would simply be trading a bond bubble for a stock bubble as money sloshed from one asset class to another. To unleash this wave of liquidity from bonds to equities, however, will require faster economic growth and that is by no means assured.

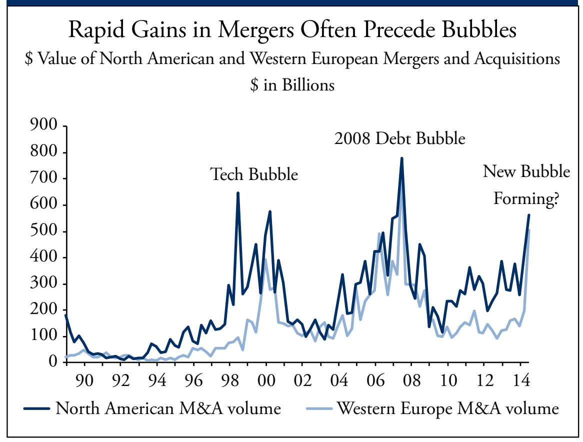
Chart 6



Source: JP Morgan

Moreover some believe the first sign of higher interest rates will also lead to lower share prices as speculators will react negatively to any sign of tightening of monetary policy by selling all investments. To be sure, a major shift in Fed policy is coming at some point and it is certain to cause a degree of volatility. If the economy is expanding, however, corporate profits will also be rising and this should help prevent a steep sell-off in equities. Bonds, on the other hand are likely to enter into an extended secular bear market. As investors, and perhaps more importantly speculators, flee bonds in the face of faster economic growth and a less accommodative Fed; equity, real estate and commodity prices are all likely to benefit.

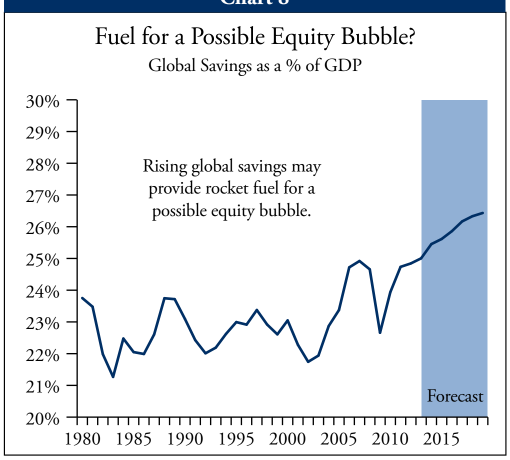
Chart 7



Source: JP Morgan, Bloomberg

Rising merger and acquisition activity also may be an indicator of the potential for a bubble developing in equities in the near future. Chart 7 portrays the jump in mergers and acquisitions prior to and during the two previous share price bubbles as well as the sharp rise in such activity recently. As buy-outs blossom, speculators begin earnestly seeking out which company might be next to be purchased at a big premium to the current share price. Moreover, to the extent acquirers' purchase using cash, such activity reduces the total number of shares outstanding investors can buy while simultaneously increasing the amount of cash ready to invest in those remaining shares. This increased demand for shares and lower supply of them can only contribute to higher valuations being realized. As such, increasing merger and acquisition activity is not only a leading indicator of a bubble, but also provides fuel for its continuation.

Chart 8

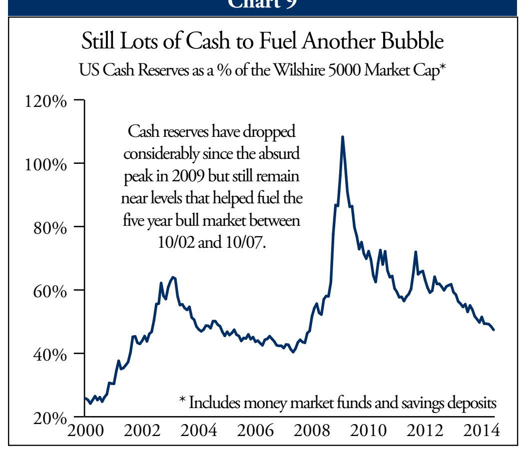


Source: BCA Research, IMF World Economic Outlook, April 2014

While by no means assured, many of the preconditions for a bubble are already in place. Indeed, a bubble could occur even if the Great Rotation never restarts. Liquidity is abundant, even as the Fed is bringing its QE3 program to an end. Global savings have reached new highs as individuals and companies around the world have rebuilt their balance sheets (Chart 8). Share prices have already moved significantly higher and many investors failed to participate in that rally. As a result, the greed factor is now beginning to kick in, especially since the market's so far reasonably paced, low volatility advance has helped push memories of the 2008 crash into the background. The corporate sector is in excellent financial shape and banks, in the US at least, have regained their strength. Valuations are above average but not yet anywhere near levels indicative of a bubble, so there is room for the market to run higher still. Some signs of speculative behavior have emerged (notably margin debt), but few would claim all the classic indicators of rampant speculation flashing red at present. Cash and savings deposits have fallen considerably as a percentage of market capitalization from the absurd highs reached after the 2008 crash (Chart 9) but still remain at levels not far from those seen after the Tech bubble burst and which helped spur the five year bull market between October 2002 and October 2007.

Should another equity bubble arise, we should see signs of it in the seasonally strong fourth quarter. While bubbles always end badly, timing when to exit your shareholdings is critical. No one wants to sell well before a bubble really gets going as impressive gains would be lost. At present, we would not make the formation of an equity bubble our base case, but we want to be alert to the possibility. Moreover, should none ever materialize; we believe the market currently offers a reasonable balance between risk and reward at the moment anyway. Still, there can be no denying risk has risen, at least in the US, due to the advance in share prices and valuations over the last two years. We suspect the Fed would work hard to quell speculative tendencies and it could well prove successful in doing so. At the moment, hedge funds are hardly hedged as many have abandoned much of their shorts as the markets rose and their performance trailed far behind the indices. We could easily see hedge funds selling stocks heavily and quickly reinstituting short positions should the Fed's words and actions encourage them to do so. This would probably be sufficient to thwart a runaway speculative bubble in equities. During the remainder of 2014 and beyond, the market is likely to be more volatile. That volatility may be exclusively on the upside if a bubble forms. More likely, however, is greater movement in both directions.

Chart 9



Source: BCA Research

Good Earnings Growth Everywhere, Best Values Outside the US

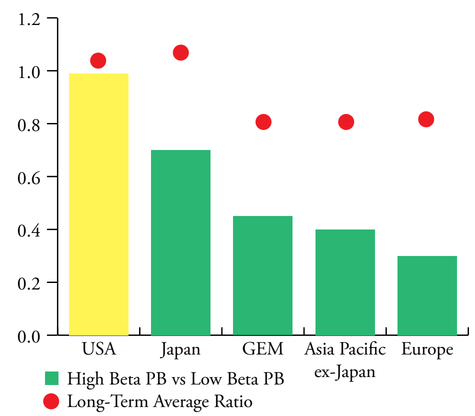
"Then King Darius wrote to all the nations … May you prosper greatly!" Daniel 6:25

While a new share price bubble probably will not arise, if one were to occur, it would likely be in the US. At the moment, speculation is below average in all regions of the world (Chart 10), but the closest market to entering a speculative environment is the US. Should the US market break through the obstacles the Fed would seek to put in its way and speculative activity soar, there would likely be a positive impact on share values around the world although the US might see the biggest price gains. With speculative activity currently at quite low levels elsewhere in the world, however, other regions might have a catch-up effect working in their favor thereby producing higher than expected returns. Clearly, however, having a diversified global portfolio is an advantage at the moment. If no bubble materializes and volatility increases, there is likely greater downside risk in US stocks than in those outside America since valuations are higher in the US and early signs of speculation have appeared.

Chart 10

Speculative Activity Well Below Average Everywhere But the US

Measure of Speculative Activity by Region

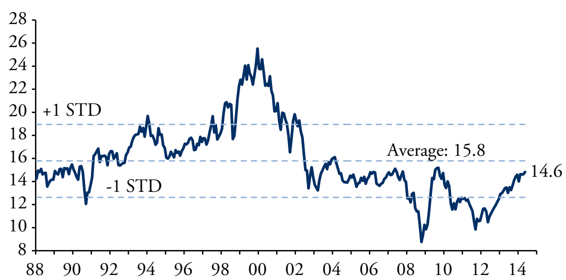


Source: BofA Merrill Lynch Global Quantitative Strategy, MSCI, IBES

Chart 11

Global Share Valuation Still Slightly Below Average

Global P/E Based on Forecasted Earnings



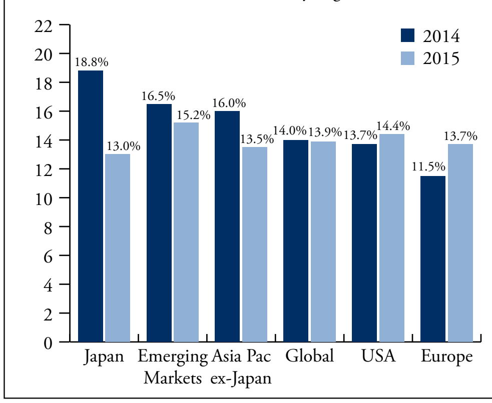
Source: BofA Merrill Lynch Global Quantitative Strategy, MSCI, IBES

To be sure, valuations on US stocks have risen to above average levels based on most measures, including those focused on prospective P/E ratios. When viewed globally, however, the prospective P/E ratio for equities is still slightly below average (Chart 11). Clearly this indicates better valuations for foreign shares, where roughly half of Stewardship Partners' Global portfolio positions are now held. As we have noted in the past, the valuations of emerging market shares are particularly low at this point. To some degree, these low valuations are held down by large, low growth, low profit state run enterprises included in the emerging market indices. Even so, P/Es are still low and we continue to believe the emerging markets may produce some of the best returns over the next five years. Europe, however, could face an extended period of deflationary malaise unless government and central bank policymakers take actions to avoid this. Fortunately, many European companies have significant operations outside of the region and can still prosper to a degree even if Europe achieves better growth.

Chart 12

Strong Earnings Growth Expected Around the World

Global EPS Growth by Region



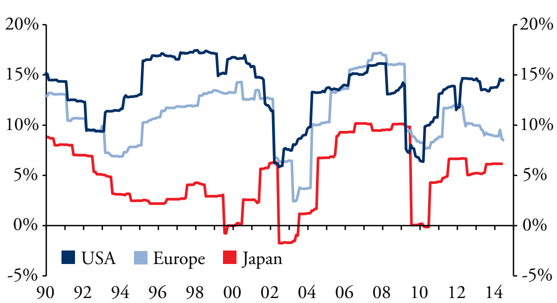
Source: BofA Merrill Lynch Global Quantitative Strategy, MSCI, IBES

The expectation that European companies can overcome the very low levels of economic expansion in Europe and will continue to grow their earnings can be seen in Chart 12. While expected European earnings growth is at the low end of the global range, analysts still forecast double digit growth in both 2014 and 2015. Indeed, good earnings growth is anticipated throughout the world over the next eighteen months. This alone should offer a favorable backdrop for global share prices. Unless something currently unexpected occurs to undermine this growth in earnings, we would expect any downturns in share prices to be relatively short. The current mentality of "buy the dip" may well be in place for some time to come.

Chart 13

Japan's Profitability Lags Greatly

Regional Return on Equity in %



Source: BofA Merrill Lynch Global Quant Strategy, MSCI, World Scope

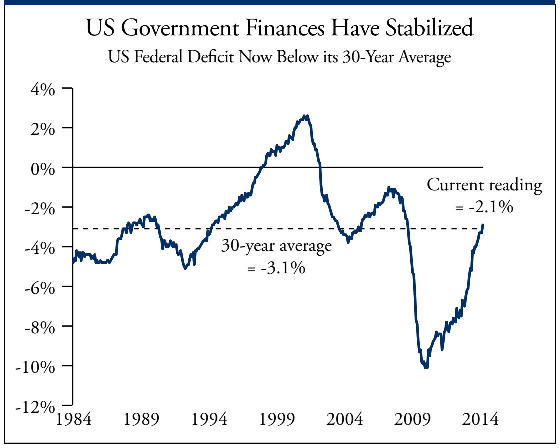
Japan's efforts to stimulate economic growth have met with a degree of initial success, largely due to the weakening of its currency and the resulting stimulation in the size and profitability of its exports. Japanese companies, however, remain far less profitable than their peers around the world (Chart 13). For this and other reasons we have highlighted previously, we tend to avoid Japanese shares.

The Future is Promising, but Hedge Funds Could Cause a Sell-Off

"Why does the Almighty not set times for judgment?" Job 24:1

That the US stock market has performed so well is something of a surprise to many. Under President Obama, the country has politically moved sharply to the left. The number of people on government assistance has soared as has the size of the disability rolls. Unemployment has improved during the Obama administration, but much of the improvement came as the result of large numbers of people dropping out of the workforce. Moreover, the Fed has pursued previously untried approaches that many felt certain would result in surging inflation. Further, corruption on Wall Street was rampant until 2013 when regulators began to catch up to the problem. From a Biblically Responsible Investing (BRI) perspective, the moral decline in the US that has been so evident in the past decade also left many feeling as if it was only a matter of time, and probably not much more time, before the Lord brought some form of judgment on the nation. There were many legitimate reasons for investors to be cautious, yet despite these, the markets soared. Remarkably, despite Obama's big government policies, the Federal deficit has fallen dramatically and now stands below the average level of the last 30 years at 2.9% (Chart 14). As we have stated many times in the past, capitalism is a very strong force to be reckoned with and, given enough time, it typically overcomes all obstacles to its success. Indeed, despite the US's many economic, political, corporate and regulatory shortcomings, its recovery from the crash it caused in 2008 has been far better than any other region of the world. Its banking system is the strongest in the world, its government finances have stabilized, it is closing in on energy independence and it currently seems poised for more rapid economic growth.

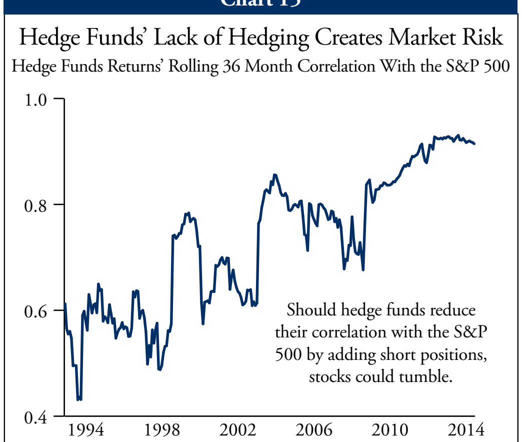
Chart 14



Source: Bloomberg

In view of all this, as well as the market's strong performance, our contrarian instincts are on alert. With valuations creeping above historical averages in the US, we are particularly sensitive to the potential for a pullback in US share prices. While most data currently argue against any sizable or sustained decline occurring, there are some situations which could contribute to a significant sell-off. One of these is the trading positions of the still huge hedge fund industry. As hedge funds have turned in miserable performance since 2009, they have increasingly sought to improve their results by removing hedges. Hedge fund performance, therefore, has become much more correlated with the S&P 500 than ever before (Chart 15) as hedge funds, in an effort to save their outrageously lucrative businesses, have come to resemble long only managers in a world were stocks keep grinding higher. Should some future circumstance cause hedge funds to quickly revert to more cautious portfolio positioning, the selling pressure this would create could be substantial. Moreover, it would feed on itself for a while and could easily lead the markets to overshoot on the downside. There will likely be many false starts to a potential significant market decline as some hedge funds try to anticipate a downturn by getting more defensively positioned before their competitors. We will be on the alert to do our best in sorting out temporary sell-offs from dips that could turn out to be more painful, longer lasting declines. This can be difficult, however, since such speculator-driven sell-offs can be largely irrational as we have seen in the past.

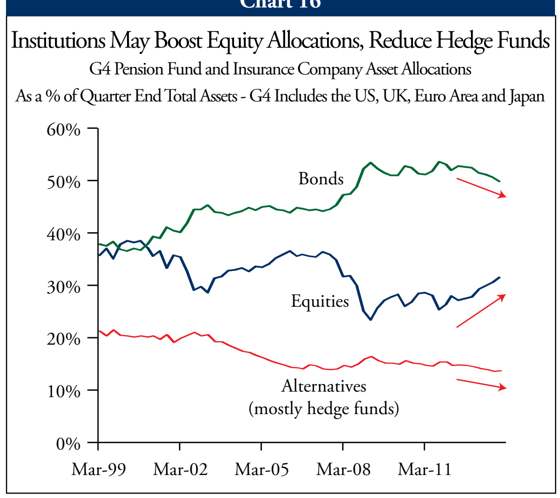
Chart 15



Source: Pension Partners

While the hedge fund industry remains a dominant force in the markets at the moment, we believe it has been losing its grip on this position. As we have documented previously, a combination of atrocious performance, massive fees, poor liquidity and rampant scandals has caused many leading institutions and wealthy individuals to reduce exposure to hedge funds. Should this trend gain further momentum, it may act to minimize the impact hedge fund speculators have on the market and lessen volatility. Chart 16 highlights the declining allocations to hedge funds among institutional investors in the US, UK, Japan and Europe. It also reveals how higher allocations to equities and lower bond exposure could be a driving force for equity prices for years to come as the Great Rotation restarts.

Chart 16



Source: ECB, BOJ, BOE, Federal Reserve flow of funds

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

Stewardship Partners, founded in 2000, is a leader in the field of investing with a Christian perspective, a form of Socially Responsible Investing (SRI) known as Biblically Responsible Investing (BRI). Rusty Leonard, CFA, Stewardship Partners' founder and CEO, practiced this investment philosophy while managing over $3 billion of assets as a portfolio manager during his decade of service with the Templeton organization. He also had the privilege of working directly with world-renowned global mutual fund manager, Sir John Templeton. **By employing a BRI approach to investing, Stewardship Partners seeks to achieve long-term capital gains through ownership in securities of companies that are a blessing to mankind. Conversely, we seek to avoid profiting from owning companies engaged in sinful activities which bring physical and spiritual loss to our fellow man. Our heart's desire is to do no harm to our fellow man in the process of being the best possible guardians of the wealth the Lord has given us stewardship over.** Simply put, a "what would Jesus do" approach to portfolio management is what we seek for our clients.

Below are just some of the issues of concern to Stewardship Partners and the specific sinful activities that fall into each category:

1. **We desire *<u>justice and mercy for the defenseless</u>* so we seek to avoid companies involved in:**
   - Abortion
   - Life destroying or distorting scientific research
   - Human rights issues such as religious persecution, terrorism and political oppression

2. **We desire *<u>justice and mercy for the poor</u>* so we seek to avoid companies involved in:**
   - Greed-based marketing techniques
   - Discrimination and unjust labor practices
   - Any abuses of the poor, children and/or the elderly

3. **We have *<u>compassion for those addicted and/or engaged in sinful lifestyles</u>* so we seek to avoid companies involved in:**
   - Alcohol, Gambling and Tobacco
   - Pornography
   - Homosexuality (those companies deemed to be the most active supporters)

4. **We desire to *<u>protect marriage and the family</u>* so we seek to avoid companies involved in:**
   - Entertainment that seeks to destroy biblically-based attitudes
   - Efforts to promote lifestyles the Bible indicates are sinful

Additionally, we favor companies that clearly embrace:
- Honesty, Compassion, Diligence, Prudence and Creativity
- Support for quality products at fair prices and constructive stakeholder relations
- Support for a sustainable and healthy environment
- Support for charitable giving
- Support for the Jewish people and the state of Israel

We obtain information on both the objectionable practices and the exemplary attributes of corporations from our affiliate **The Biblically Responsible Investing Institute** (www.BRIInstitute.com). We believe BRII gives Stewardship Partners the most comprehensive database of BRI information that currently exists and utilize much of it to realize our goal of investing in a manner that most honors our Lord. Equipped with this information, we are then prepared to make as strong an effort as possible to build investment portfolios which best reflect our clients' biblically-based Christian worldview.

Like all people, all companies are sinners. Therefore, we attempt to use the BRI information at our disposal to eliminate the worst offenders from our portfolios. At times, this is easy. For example, a company involved in making drugs used in the abortion process will always be excluded from our portfolios. In many cases, however, we need to utilize judgment, such as when a company has operations in a country that is a known violator of human rights. The type and size of that exposure, among other considerations, are taken into account before eliminating the company from our portfolios. When judgments must be made we are guided by the principal of trying to do what we believe Jesus would do if He were making the decision.

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

BRI in Action – Comparing Good and Bad Corporate Behavior

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

Below you will find an example of both a company exhibiting exemplary attributes, TRW, and one we avoid, Total. TRW is a holding in some of our Stewardship Partners portfolios while we actively avoid ownership in Total 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 – TRW – Innovation, Integrity and Safety

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

TRW, or more rightly stated, its predecessor companies, have been serving the needs of the automotive industry for 111 years, basically since the start of the industry. In its early years, the company provided a wide assortment of products to the newly forming auto industry, including wooden wheels to Henry Ford's Model T. Even in its early years, TRW was a global company supplying lighting and electrical products to automotive manufacturers in Europe. Today, TRW has grown into a global leader in providing the automotive industry with an impressive array of products, many of which are focused on enhancing safety for the drivers and passengers of motor vehicles. TRW's active and passive safety product portfolio is the most comprehensive available and the company's intense focus on innovation will likely keep the company in this enviable position. TRW emphasis is currently on its advances in its Cognitive Safety Systems, which are beginning to revolutionize the driving experience by making the various safety systems in an automobile more "intelligent". Many new cars now have safety systems in pace that automatically brake the vehicle when trouble arises ahead or which help drivers not drift out of the lane they are driving in. New systems will automatically adjust seat belts and other safety systems to changing risk factors, will sense a crash before it happens and alter the various safety systems for an optimal outcome and will use GPS to help prepare the car and the safety systems for changes in the roadway ahead. As a result of its many safety innovations, TRW has clearly saved many lives around the world and will continue doing so in the future. The company's goal is to produce the highest quality safety systems at the lowest cost while having a global reach. Should TRW become successful at expanding its global reach into the emerging markets it will certainly save many more lives as India apparently accounts for less than 1% of the world's vehicles and 24% of all deaths related to motor vehicles! About 90% of the company's product portfolio is devoted to safety and the company is committed to enhancing road safety, particularly in the emerging markets.

TRW has 65,000 employees throughout the world. These workers are located in 185 facilities found in 24 different countries. The company supplies all major automotive manufacturers in the world with Volkswagen alone accounting for nearly one-quarter of its sales of $17 billion. Europe accounts for 41% of total company sales while North America generates 36% of TRW revenues. For the company to attain its status as a global leader in its field, it clearly had to uphold honorable business practices. An attitude of commitment to doing the right thing is evident at TRW and reflected in the following statement from the CEO in the company's comprehensive Standards of Conduct Policy: "Achieving our vision to be the global leader in active and passive safety systems is built on a foundation of trust – trust in our products, our people and their integrity. Drivers and passengers rely on us and our products every day on roadways all over the world to help protect their most precious possession – their lives and that of their families. Confidence in our products goes hand-in-hand with trust in our people. That trust extends to every one of us representing TRW and it must be honored by holding ourselves to the highest standards of legal and ethical conduct." Attributes such as integrity, innovation and trust are integral to the success of TRW and the company has taken efforts to assure that its many employees uphold the standards the company has set. In TRW's Policy Statement on Legal and Ethical Conduct, it further burnishes its image by declaring: "It should be understood that the spirit of this policy requires that the Company maintain a high degree of integrity in all of its interactions with shareholders, employees, customers, suppliers, local communities, government at all levels and the general public." It is clear, from both TRW's words and actions, that it earnestly seeks to be a good corporate citizen.

TRW also expresses it good corporate citizenship by doing much to provide for the needs of its employees. Many of its employees are covered by union contracts, which afford many attractive benefits. In the US, the company's non-union employees also enjoy a very attractive benefits package. Medical insurance is provided along with vision and two options for dental insurance. Flexible spending accounts are available for employees to utilize for healthcare or dependent care costs. TRW is committed to keeping its employees healthy and offers a variety of services to accomplish this. Its Health Management Program offers biometric screening, a wellness program, smoking cessation assistance, a disease management program and online health assessment and education tools. Recognizing the many challenges facing its employees, TRW offers and free and confidential Employee Assistance Program which seeks to help both their employees and their family members cope with issues that impact negatively on both their work and personal lives. TRW also makes available to its staff a variety of income protection insurance plan including both life and disability insurance coverage. TRW also makes matching contributions to an employee 401(k) plan to help their workers prepare for retirement income needs. The 401(k) plan includes both a Roth and an after tax contribution option. TRW also makes available flexible scheduling, family leave time and incentive compensation plans. This roster of benefits for TRW employees, while not the most extensive we have seen, is still impressive.

TRW's efforts to address the safety of its employees are as notable as its work to improve the safety of automobiles. Moreover, this hard work is paying off with annual declines being seen in both the number of worker injuries and the severity of those injuries. The company has also been diligently addressing concerns about the potential use of child and slave labor among its suppliers. It has instituted a supplier analysis program to closely evaluate the activities of their suppliers as well as educate them about such issues. TRW also has initiated extensive efforts to avoid the use of conflict minerals (minerals sourced in the Congo, often under repressive conditions). On the environmental front, the company's work is far too extensive to fully detail here, but it includes engineering its products to reduce emissions and improve fuel efficiency, reducing energy and water usage, reducing waste from the production process and lowering greenhouse gas emissions. TRW has won recognition from a number of governmental and independent groups for its safety and environmental efforts in Mexico, China, England and the US. One area where TRW does not appear to excel, however, is in the area of philanthropy. We were unable to find any evidence of a significant corporate focus on charity or volunteerism, which is disappointing. Even so, TRW has made considerable progress in all of the areas discussed above and is worthy of being referred to as a Good Steward company by the Biblically Responsible Investing Institute.

TRW's good works, while numerous, are, of course, no guarantee of long-term investment success. As Biblically Responsible Investors, however, the company's commitment to innovation, integrity and safety as well as its outstanding treatment of its employees allows us to know we are shareholders in a company seeking to be a blessing to all. While no company, like no person, is perfect, this is clearly a company which benefits those related to it and one we can be proud to own! The lives its technology and products have saved, and will save in the future, alone make it a worthy investment for those taking a BRI approach.

The Bad – Total – Exposed to Slavery and Oppressive Regimes

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

Geopolitical developments leading to war and a variety of atrocities have been growing throughout the world recently. As usual, the Middle East is one area where some of the worst of these problems are prevalent. The rise of Sunni/Shia warfare in Syria and Iraq has led to extended and capricious bloodshed. Iran continues to be a state sponsor of terrorism, promoting and supporting conflicts in the region. Libya remains essentially an ungovernable state and a hotbed of extremism following the fall of Ghadaffi. In the Sudan, its Muslim leadership continues to make war with the newly independent South Sudan, which is populated by Christians and other non-Muslims. Many other countries in the region also are involved in supporting regional warfare and terrorism as well. Our ally Israel bears the burden of terrorist activity and is presently engaged in an attempt to provide for its people's safety after roughly 1,500 missiles have been launched against its territory from the Gaza Strip. While none of these unfortunate situations have yet directly impacted the world's financial markets, there is untold human suffering occurring because of these activities. As a result, BRI investors, like ourselves, seek to avoid companies which engage in business in countries the US State Department has identified as dangerous nations or oppressive regimes. One such company is the French oil giant, Total.

Total has a long history of doing business in countries that many other oil companies have avoided. While warfare and sanctions have greatly reduced the company's operations in such countries, Total still has some business activities in Syria, Iran, Libya and the Sudan. Total has also settled charges from the SEC and the US Justice Department regarding its use of bribes to obtain business in Iran. Total also agreed in 2005 to compensate victims of forced labor in Myanmar where the army essentially used slave labor to build a pipeline used by Total. The company's human rights record is poor and it has shown an unusual and disturbing willingness to do business with oppressive and dangerous nations.

Excluding Total 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 the Bible defines as sinful and which can have a negative impact on individuals and society in general.

Stewardship Partners — Ministry Commentary

Our Ultimate Goal – Funding the Lord's Work

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

It is our hope that Stewardship Partners' ability to create an abundance for you will help you to share with those who are in need and assist in fulfilling the Great Commission. Our non-profit ministry affiliate, Wall Watchers, provides a free service to help you educate yourself about the many wonderful Christian giving opportunities available to wise donors. We invite you to join the thousands of visitors to our ministry's website at www.MinistryWatch.com, as best we can tell, the Internet's top site for donors to Christian ministries to gather critical information about the ministries they are considering supporting. The site contains a variety of helpful information about hundreds of the largest US-based Christian ministries including ministries statements of faith, the history of the ministry, program accomplishments, ministry financial statements and financial efficiency ratings. Please feel free to utilize this free resource as you seek to be a wise and effective donor to Christian ministries. We would be pleased to help you bless God's people who are in need, and clients of Stewardship Partners have access to further resources from MinistryWatch.com. It is our sincere desire to see Christians leading the way in giving generously, wisely and effectively so that the Lord's work on earth can be completed and many can be both blessed and saved.

Featured Ministry – Advancing Native Missions

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

Advancing Native Missions was founded in 1992 by two seasoned mission agency staffers who felt the Lord prompting them to try a new approach to spreading the Gospel to those who had yet to hear it. Carl Gordon and Bo Barredo recognized indigenous missionaries, rather than those sent from the US or elsewhere in the West, were best positioned to have a significant impact where they lived. They also knew these native missionaries had little access to the resources they needed to be successful. By establishing Advancing Native Missions, they hoped to be able to bring these missionaries the vital financial and other assistance they required. The ministry seeks out, evaluates and equips indigenous mission groups around the world. Its mission is to advocate for, encourage and send support to such missionaries in order to hasten the preaching of the Gospel to the 40% of the world's population that is estimated to have never heard it.

Advancing Native Missions has grown substantially over the last 22 years. From supporting just a handful of native missionaries in 1992, the ministry is now active in 75 countries, working with over 200 missionary groups which together oversee more than 5,000 individual missionaries. Missionary groups are carefully vetted before receiving support. Each group is analyzed regarding its doctrinal integrity, financial transparency and accountability, fruitfulness and faithfulness and its strategic orientation. Those groups which meet Advancing Native Missions requirements are also checked at least annually to determine if they remain in compliance. Hundreds of local churches and thousands of individuals in the United States have committed to financially supporting these efforts. Dozens of new native mission groups are looking to partner with this ministry at any given time and only insufficient support prevents Advancing Native Missions from growing even faster.

Advancing Native Missions not only has admirably followed its calling but has done so in a financially efficient manner. Every aspect of this ministry seems to be managed well. Advancing Native Missions has a five star Financial Efficiency Rating from MinistryWatch.com, indicative of its wise use of donor resources. We believe Advancing Native Missions is worthy of consideration for your financial support.

The Christian Ministry Marketplace – Helping Donors Give Wisely

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

Much like the stock market provides for a sensible and efficient allocation of capital in our economy, the rise of a Christian Ministry Marketplace is providing donors with a myriad of helpful resources to maximize the impact and joy of giving to the work of the Lord.

As donors begin to take their giving as seriously as their investing, they will find the assistance offered by the groups listed below to be invaluable. By utilizing these resources, donors are not only likely to make better personal giving decisions, but are also contributing to the growth in the marketplace itself. By so doing, they are helping to lay a foundation for wiser giving for all who follow in their footsteps. Accordingly, we encourage donors to investigate how these groups might help you to give more wisely, achieve a greater impact and create increased joy for both yourself and receivers of your gifts.

The Christian Ministry Marketplace
Resources for Christian Donors

WHY to give to Christian ministries?

Teaching on Stewardship:

- Crown (crown.org)
- Eternal Perspectives (epm.org)
- Generous Giving (generousgiving.org)
- Global Generosity Movement (generositymovement.org)
- Sound Mind Investing (soundmindinvesting.com)
- The Gathering (thegathering.org)
- MaximumGenerosity.org (maximumgenerosity.org)
- Stewardship Ministries (stewardshipministries.org)

HOW to give with a discerning mind?

Professional Advisors:

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

Donor Advisors:

- Excellence in Giving (excellenceingiving.com)
- Calvin Edwards & Company (CalvinEdwardsCompany.com)
- Kardia (kardiaplanning.com)

WHERE to invest in kingdom ministries?

Ministry Research:

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

Ministry Mutual Funds:

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

Featured Ministry Marketplace Participant – Calvin Edwards & Co.

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

Calvin Edwards & Company is a leading donor advisory consulting firm, which helps individuals, families and foundations maximize the good they achieve through strategic giving. Founded in 2001 by long-time ministry and Christian financial services veteran Calvin Edwards, the firm seeks to assist thoughtful, high-capacity donors with customized services to help ensure their generosity is as effective as it can be. Calvin and his team help guide a prospective donor through the creation of a donor profile which helps identify the donor's giving personality. A Giving Plan is then produced to help guide and manage the donors giving. In this process, Calvin Edwards & Company provides information, perspective, and judgment that informs and guides their clients' decisions about the charities that best match the clients' giving goals. Calvin and his staff regularly prepare very professional, in-depth research reports which help define the important issues a wise donor should consider when evaluating a potential ministry for a sizable gift. The company can also assist in formulating the appropriate accountability methods for how a gift is utilized and can aid donors in structuring gifts so that the intended effect can be optimized and common barriers to effectiveness minimized.

Calvin Edwards and Co. also serves nonprofit organizations with products and services to improve its management and program effectiveness. It provides its analysis and insight in bound reports written in a style suitable for giving to a donor or prospective donors. Research on specific charities, charitable sectors and important issues facing charities are produced which are both comprehensive and enlightening. If you are a significant donor or ministry seeking to improve its operations, we would highly recommend that you consider enhancing your giving with the assistance of Calvin Edwards & Company.

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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