STEWARDSHIP PARTNERS

MARKET COMMENTARY

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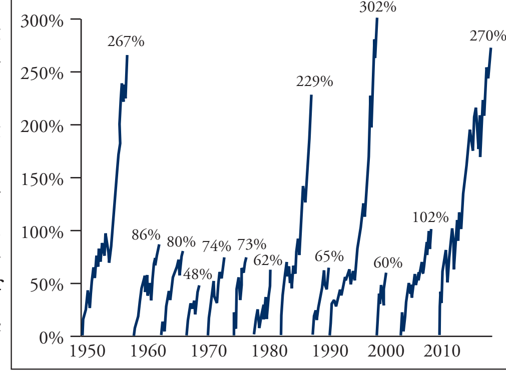
Markets Advance Again in Q2, But How Long Can It Last?

"I will give thanks to you, Lord, with all my heart; I will tell of all your wonderful deeds." Psalm 9:1

We are pleased to report almost all Stewardship Partners client portfolios outperformed the relevant indices in 2017's second quarter, thereby adding to the strong performance already achieved in the first quarter of the year. The various benchmarks our portfolios are measured against also performed well, boosted by strong corporate profit growth, and we were grateful we have been able to exceed those indices in the first half of 2017 in the great majority of our client portfolios. We are thankful the Lord has allowed us to continue to bless our clients in this manner and we recognize without His favor we would not have been able to achieve these good results. Once again, we were able to achieve good returns even while maintaining a defensive investment posture in most of our portfolios. Attaining market beating returns while taking less risk than the market is about as good as it gets in the investment world, so we are particularly grateful for our recent results. Much of the reason for these good results can be traced to the exceptional performance of our largest holding, which now represents an unusually large percentage of our portfolios. While a large holding represents its own unique risks and introduces the likelihood of increased volatility in our portfolios, we remain very confident this particular stock will continue to produce strong relative returns over the next 2-3 years and remain comfortable holding the current outsized position in our portfolios.

Chart 1

Closer to the End than the Beginning?
% Gain in S&P 500 During Bull Markets
Excluding dividends, 1949 – 2017



Source: The Leuthold Group

Table 1

2Q17 Total Returns

US Indices	2Q17	YTD	5y ann
S&P 500	3.1%	9.3%	14.6%
S&P 500 Value	1.5%	4.8%	13.8%
S&P 500 Growth	4.4%	13.3%	15.2%
NASDAQ	4.2%	14.7%	17.4%
S&P 400 (Mid Cap)	2.0%	6.0%	14.9%
S&P 600 (Small Cap)	1.7%	2.8%	15.5%
Treasury Bonds	1.2%	1.9%	1.3%
High Grade Corp. Bonds	2.5%	3.8%	4.0%
High Yield Corp. Bonds	2.2%	4.9%	6.9%
Gold	-0.6%	7.7%	-4.9%
Global & International Indices			
MSCI World	4.0%	10.7%	11.4%
MSCI EAFE	6.1%	13.8%	8.7%
MSCI Euro	7.5%	16.6%	10.4%
MSCI Far East	5.4%	11.7%	9.4%
MSCI China	5.2%	9.9%	9.6%
MSCI Japan	10.6%	24.9%	9.0%
MSCI Emerging Markets	6.3%	18.4%	4.0%
US Economic Sectors			
Energy	-6.4%	-12.6%	1.6%
Materials	3.2%	9.2%	11.1%
Industrials	4.7%	9.5%	16.1%
Consumer Discretionary	2.4%	11.0%	17.4%
Consumer Staples	1.6%	8.0%	12.6%
Health Care	7.1%	16.1%	17.9%
Financials	4.2%	6.9%	18.0%
Information Technology	4.1%	17.2%	17.2%
Telecom	-7.0%	-10.7%	5.8%
Utilities	2.2%	8.8%	11.2%

Source: Bloomberg

We are far less comfortable, however, with the current situation of equity prices generally. Chart 1 highlights how extended the current bull market is relative to all bull markets in the post-World War II period. Table 1 also shows how well stocks and bonds have performed in the last quarter, year-to-date and five year periods. While it is always difficult to know exactly when a bull market may be about to end, we can know for certain we are not near the beginning of the current bull market. Moreover, as we will show later in this Quarterly Commentary, the valuation of equities and bonds is also very elevated. Just as the long length of the current bull market does not guarantee an imminent end to rising stock prices, high valuations do not indicate a bear market is around the corner either. Stock valuations can remain high for an extended period of time, but wise investors certainly should become more cautious when a bull market has gone on for so long and valuations are elevated. Moreover, there are other signs in the financial world suggesting speculation is beginning to build. Recently the market has become very narrow with investors/traders piling into several large technology stocks with abandon. The ten biggest winners in the S&P 500, almost all tech stocks, in 2017 have accounted for roughly half the advance in the entire index. This is not a healthy situation for the market to be so narrow in its advance. Just as we came to the end of the second quarter, however, these stocks have begun to show signs of weakness. Should this continue, the market's leadership will have been undermined and it might set off a broader market correction.

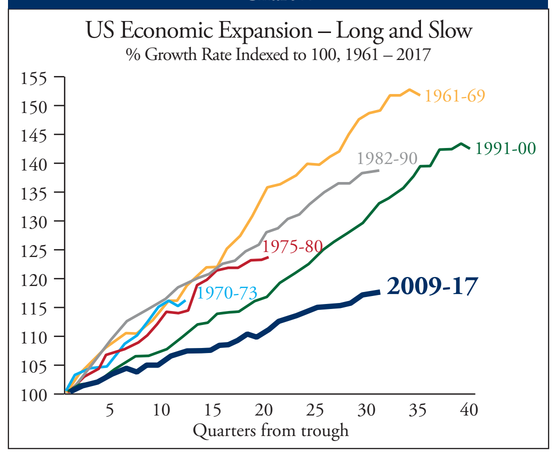
Moreover, had we known at the beginning of the year that Trump's aggressive economic agenda would stall, geopolitical tensions would rise significantly, economic growth would continue at a slow pace and some indicators of future economic weakness would start arising, we would have never presumed the market would have done so well so far this year. With high levels of debt throughout the world's financial system, it would not take much to set off a bear market. Accordingly, we are happy to keep our portfolios in a defensive posture at this time, particularly since we have already achieved a good return for the year in almost all of our client accounts. As we are now moving into the seasonally weakest quarter for share prices, caution seems all the more warranted.

The Global Economic Expansion Is Also Getting Old

"Neither do people pour new wine into old wineskins. If they do, the skins will burst…" Matthew 9:17

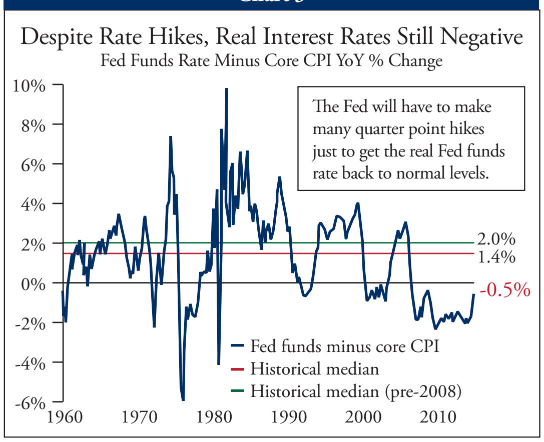
With the bull market now one of the longest on record, it should come as no surprise the current economic expansion has been one of the longest as well. Chart 2 highlights the current economic expansion is now the third longest in recent history, but it also stands out as, by far, the slowest expansion ever. Even to achieve this slow growth took enormous fiscal and monetary policy actions. The extent of the economic damage caused by the Great Recession was so formidable that this was the best growth the massive economy-boosting policy efforts could manage to create. As these policies are now being reversed in the US, the question naturally arises as to whether this lengthy but weak expansion will falter. Thus far the Fed has been able to end its Quantitative Easing (QE) program without the economy stalling out and more recently, the Fed has begun raising interest rates on a regular basis. Thus far, these interest rate increases have also not had an obvious negative impact on the economy. So, it appears for now the US economy, the world's largest and therefore most important, has been able to transition to a still low but self-sustaining growth path. Given how tepid this expansion has been, the recession-causing, economic imbalances which typically arise during a more ebullient economic recovery have been slower to develop as well.

Chart 2



Source: BCA

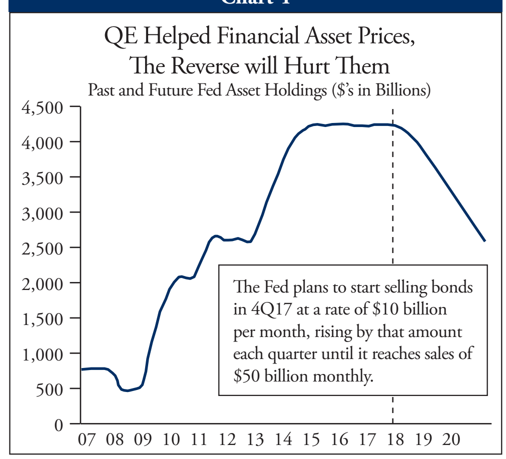
Chart 3



Source: Pension Partners

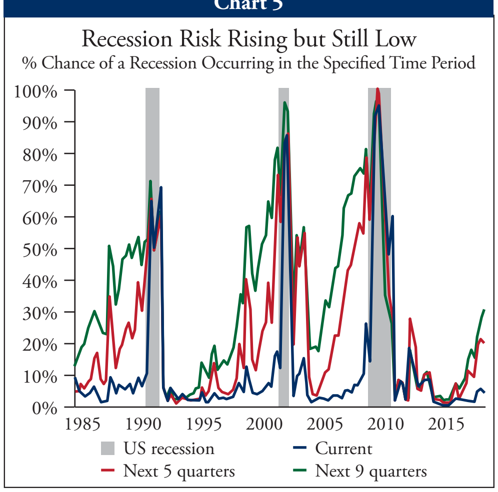
Indeed, even though the Fed has been raising interest rates lately, monetary policy is still in an accommodative zone. Chart 3 shows real short term interest rates, which account for inflation, are still in negative territory and therefore continue to provide stimulus to the US economy. The Fed will have to implement nearly eight additional quarter point hikes in the Fed Funds rate, assuming inflation does not change, in order to get back to the normal level of the real Fed Funds rate. That is a lot of hikes and it is not clear the US economy could sustain even a slow pace of growth if this is the path the Fed travels in the next two years. For the moment, however, the Fed is talking about raising rates consistently in the months ahead. Furthermore, while the slow economic growth led to fewer economic imbalances in the real economy, the Fed seems increasingly, if belatedly, concerned about the risk equity and bond market bubbles might hold for the economy. In its most recent meeting, Fed officials explicitly addressed the overvalued financial markets, yet thus far, the markets have largely ignored those concerns. In our view, the Fed seems intent on taking the markets down a notch or two to correct the imbalances they believe have arisen. In its strongest effort yet along these lines, the Fed pre-announced its intentions to begin unwinding the trillions in bonds it purchased during its various QE programs. Chart 4 portrays the plan revealed by the Fed which will eventually lead to $50 billion in bond sales per month. From our perspective, the indicated pace of bond sales seems fairly aggressive and this could act as a significant headwind to the market over the next few years, at a minimum. Clearly, when the Fed was buying the bonds it now intends to sell, the financial markets benefitted meaningfully. It is difficult to believe QE can be reversed without a negative impact on asset prices. The recent weakness in large technology stocks may be the first sign investors are beginning to become concerned with the Fed's plans to relatively swiftly reduce the size of its balance sheet.

Chart 4



Source: Capital Economics

Chart 5

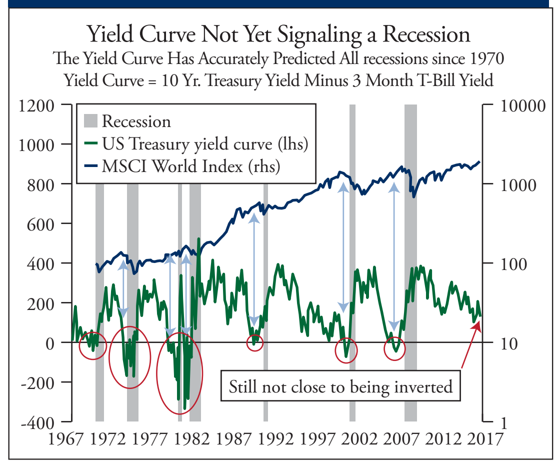


Source: Goldman Sachs

Frankly, we are surprised the markets have not yet reacted more negatively to the Fed's announcement of the reversal of QE. Back when the Fed was simply trying to slow the pace of its QE program, the market responded with what has become known as the "Taper Tantrum" where stocks sold off sharply on the news. Perhaps the expectation of another quarter of strong earnings reports in July is enough to temporarily prevent investors from becoming fearful of the QE reversal effects. The return of strong earnings growth in 2017 has sustained the markets recently in the face of an assortment of concerns that normally would destabilize equity prices. While the risk of recession after the long, slow economic upturn is growing (Chart 5), particularly with the Fed getting more hawkish, earnings are likely to continue to expand at a nice pace in the quarters ahead. Still, it is hard to believe the Fed's efforts to cool the financial markets will be unsuccessful.

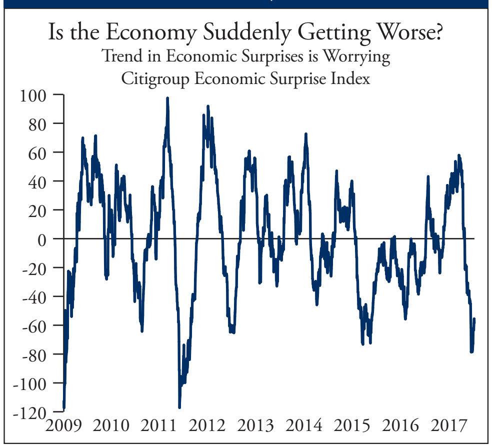
The best way to engineer a decline in equity prices is to create a recession, something the Fed definitely does not want to do – at least intentionally. While the risk of recession is rising, and the Fed's more hawkish tone and actions might heighten the risk of one occurring, outside of a surprise exogenous event occurring (i.e. – war, natural disaster, China debt bubble bursting or something of that magnitude), a recession does not appear imminent. Historically the best forecaster of recessions has been an inverted yield curve. The yield curve can be obtained by subtracting the 10 year US treasury bond yield from the 3 month US treasury bill yield and it has had 100% accuracy in predicting recessions over the last 50 years. Chart 6 reveals when the yield curve turns negative, a recession shortly followed. Currently, the yield curve is trending toward a negative reading but remains some distance away from actually going negative. While the data can change quickly, it seems reasonable to forecast a recession is not on the immediate horizon based on the current position of the yield curve. If corporate earnings remain robust in the quarters ahead, as we think they will, likely the best the Fed can hope for in their effort to prevent instability-causing imbalances in the financial markets is for stock prices to ease up slightly while earnings catch up to already elevated share prices.

Chart 6



Source: Charles Schwab, Bloomberg

Chart 7



Source: Bloomberg

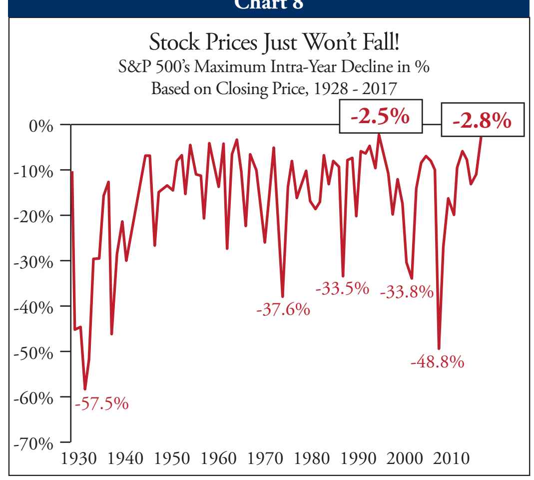
While a recession may not begin anytime soon, there are some reasons for concern about the direction of economic activity. US GDP growth is likely to be in the 2-2.5% range in 2017's second quarter, well below ideal levels north of 3%. Recently, as new information has been reported about various measures of US economic activity, the trend has been for those reports to come in less than anticipated (Chart 7). This may reflect abnormally elevated expectations for economic growth following President Trump's election rather than actual weakness. Still, there are signs the consumers are tiring of spending at the same rate as previously and rising signs banks are becoming less willing to lend in certain markets, notably for automobiles. With trends in employment remaining reasonably strong (which is principally behind the Fed's more hawkish posture), it is hard to project anything other than a period of continued sub-par growth for the US economy. The risk of recession in economies outside the US is also not high at the moment, other than in China where a debt bubble burst could occur at any time. As a result, the short term outlook for economic growth and corporate profits remains supportive for investors. If valuations were not already so high, the geopolitical situation not so threatening and the Fed not embarking on a major change in policy, there would be little reason for concern about a sharp fall in share prices.

THE ONLY THING CONSTANT IS CHANGE (AND GOD!)

"God, who is enthroned from of old, who does not change…" Psalm 55:19

Unfortunately, valuations are very high and the geopolitical situation is threatening. Moreover, the financial markets have taken up a habit recently of racing thru yellow lights and sometimes even red lights. Investors seem to react with unusual calmness to just about any new piece of worrisome news. Despite constant political turmoil, disappointment over the inability of Congress to press forward with healthcare and tax reform as well as a host of other negative developments, equity prices just keep moving higher at a steady pace. So far in 2017, the biggest decline the market has faced from its January 1, 2017 opening level has been just 2.8% (Chart 8). Only 1995 saw a slightly smaller decline since 1928. The virtual absence of volatility in equity prices has been remarkable. Since 1990, 10 of the 20 lowest daily levels of the Volatility Index have been realized just in the first half of 2017, which is quite perplexing given the volatile news flow during this time. This is a dramatic change in market behavior and most trace its origin to the QE policies still in place at central banks outside the US. These huge foreign QE programs have taken the place of the long halted US QE program and have already purchased $1.5 trillion in assets so far this year, effectively eliminating any meaningful dips in share prices globally (Chart 9). Almost all of the world's markets have risen in value in 2017 in part due to this huge buying on the part of foreign central banks. Even though we are almost at the two year anniversary of when the Fed ceased its QE operations, foreign banks have more than made up for the difference and total central bank assets now stand at over $15 trillion!

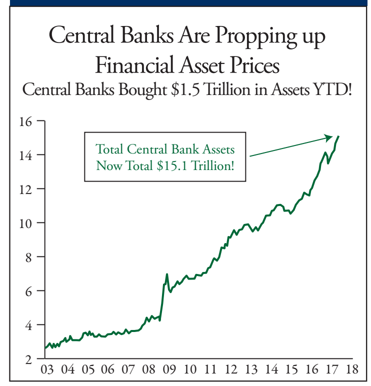
Chart 8



Source: Pension Partners

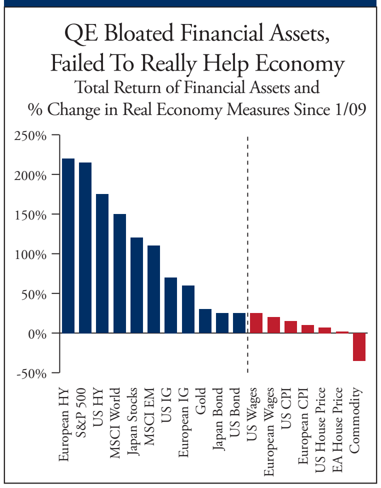
So it is no wonder that, even with a backdrop of a sluggish global economy, financial market asset prices have performed very well. Chart 10 depicts the sluggish growth seen in the real economy since 2009 but the much stronger performance of financial assets as that $15 trillion of central bank buying filtered through to just about every asset class. We suspect the Fed believed their own QE initiative had ended well before financial asset prices got totally out of hand. Now the Fed is concerned continued foreign central bank buying has caused valuations to rise to a level where the financial markets could represent a risk to economic growth should a sharp drop in prices occur. As a result, the Fed has recently changed course in its rhetoric about the markets and are trying to raise caution flags to investors, likely with the hope a calamitous bubble can be avoided. As the Fed embarks on its program to sell its accumulated assets, investors have to recognize what a significant change this could be. Over the next five to ten years, we may see the opposite of what is portrayed in Chart 10. Equity and bond prices may languish even as the economy improves due to the constant sale of assets by the Fed. Moreover, a return to more normal levels of volatility is likely (Chart 11). Increased volatility is already becoming evident on the NASDAQ Index and it will not be surprising to us if this spreads to the rest of the equity market as well in coming quarters. We fully expect the number of 1% and 2% daily moves in the S&P 500 Index to return to more normal levels in 2018 and beyond, so investors should prepare themselves for what is really just typical behavior for share prices. The recent absence of such 1% and 2% moves was an anomaly.

Chart 9



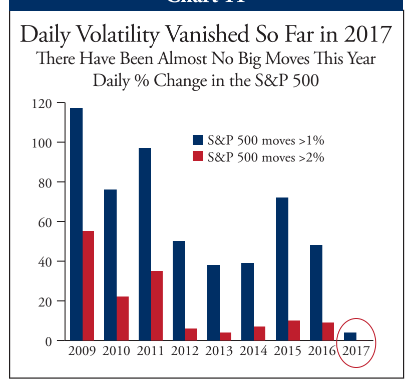
Source: BofA Merrill Lynch

Chart 10



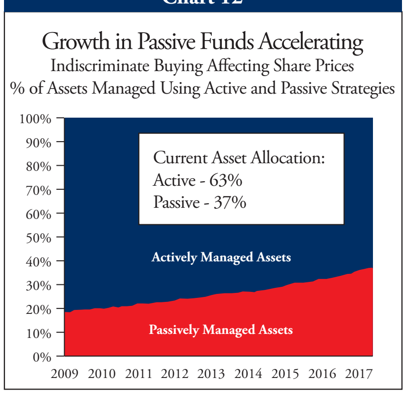
Source: Goldman Sachs

Chart 11



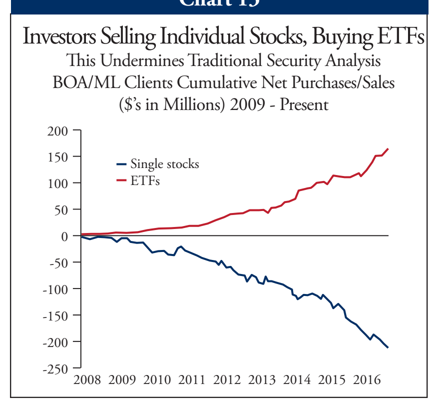
Unfortunately, most investors are unlikely to be prepared for a return to volatility. Given the relative calmness of the markets in recent years, investors have increasingly moved into index funds and index-linked Exchange Traded Funds (ETF's) (Chart 12). The need for assistance from financial advisors in picking when to be invested or in which stocks to invest in has been greatly reduced by most share prices continually moving higher indirectly backed by central bank buying. Therefore, why not just park your assets in an index mutual fund and watch it rise? Moreover, active money managers have struggled to beat the indices in an environment where index funds were the dominant traders in the market and were buying all stocks with no attention at all being paid to whether the stock was worthy to be purchased or not. In effect, long term fundamental and valuation analysis practiced by money managers like Stewardship Partners lost its meaning in a market that was essentially blind to such factors. We are especially grateful we have been able to surpass the indices in recent years given this is what we were up against.

Chart 12



Source: BofA Merrill Lynch

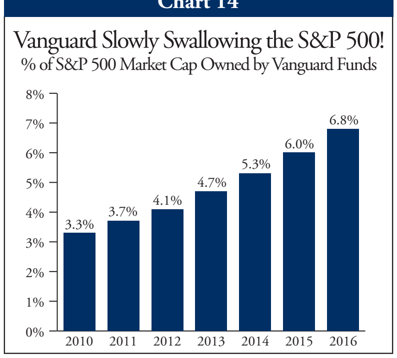
Chart 13



Source: BofA Merrill Lynch

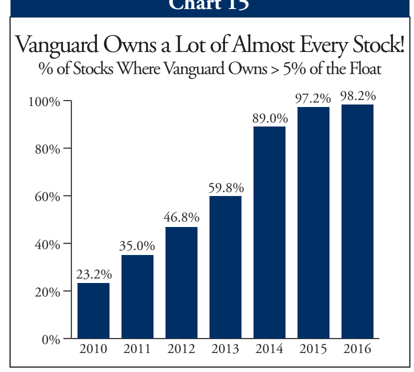
The move away from investing thoughtfully in individual stocks to blindly into indices can be seen in data from Bank of America's clients shown in Chart 13. Investors have been forsaking analyzing what a company's prospects actually are and selling shares in individual companies and replacing them with ETF's. Of course, as volatility increases as the central bank buying becomes selling, thereby allowing active managers a chance to distinguish their stock picking prowess better, index investors may come to realize it is wiser to give some thought to what you are actually investing in. We are not sure how long it will take for the current trends to reverse, but we feel confident many investors will become displeased with ETF's and passive investing in a lower, more volatile return environment which we believe may be the norm in the future. With index-centric firms like Vanguard owning roughly 7% of the S&P 500 and having greater than 5% positions in 98% of all stocks (Charts 14 and 15), it seems clear the indexing trend is now quite extended. It will likely get even more extended in the short term, but we suspect its growth will slow as the investing environment changes.

Chart 14



Source: BofA Merrill Lynch

Chart 15



Source: BofA Merrill Lynch

Positive Earnings Trends But Stretched Valuations and a Hawkish Fed

"The prudent see danger and take refuge, but the simple keep going and pay the penalty." Proverbs 27:12

It is hard to maintain a defensive posture towards equities when economic growth is trending at a reasonable level and corporate earnings are growing at an attractive pace. At Stewardship Partners, however, we have done just that so far 2017. Lofty valuations, disquieting developments on the geopolitical front and an increasingly hawkish Fed have kept us wary of the prospects for stock prices overall. While our caution has proven premature, we were confident we had enough potential big winners in our portfolio to offset any drag that might come from our cautious portfolio positioning. Fortunately, our confidence has been rewarded thus far in 2017 and our performance has surpassed the rising indices. The longer the market rises, however, the more overdue it appears for a correction. Wisdom suggests a guarded approach is best with each passing day. Chart 16 reveals it has now been over 2000 days since the last 20% market correction, the third longest run since 1960. Another indicator highlighting the market may be getting extended is the number of new highs reached so far in 2017 (Chart 17). At 24 through just half the year, 2017's final result would be a relatively high 45 if current trends are maintained. We suspect, however, the record of 77 new highs in a year could be safe.

Chart 16

S&P 500 Overdue for a Bear Market

It Has Been Over 2,000 Days Since the Last 20% Drop

Number of days since the last 20% decline in the S&P 500

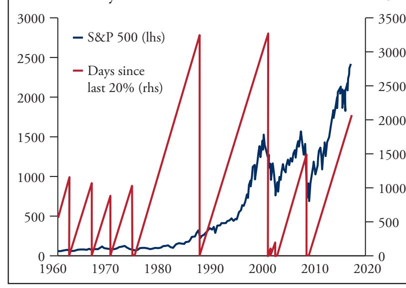


Chart 17

S&P 500 Hitting Many New Highs

# of All-Time Highs by Year, 1928 - 2017

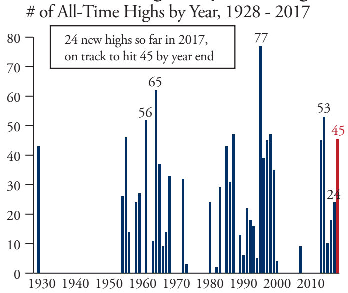
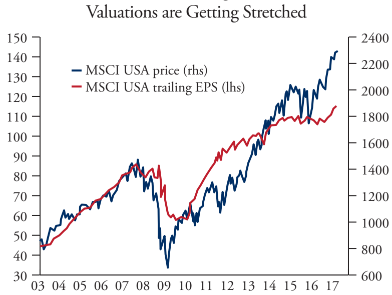


Chart 19

This Is Risky:

Global Stock Prices Rising Faster than EPS

Valuations are Getting Stretched



Source: Citi Research

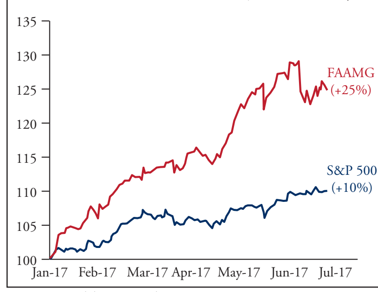
Another indicator is the superior performance of just six tech stocks – Facebook, Apple, Amazon, Microsoft and Google, otherwise known as FAAMG. As seen in Chart 18, these shares outdistanced the S&P's first half 2017 return by 150%. These six shares alone make up 13% of the S&P 500's market cap and an astounding 42% of the NASDAQ 100's. If a manager did not own these stocks in 2017, it was pretty difficult for them to outperform the index, a situation which caused many managers to pile into these stocks and the tech sector more generally. As can be seen, however, these stocks suffered a setback at the end of the quarter and we would not be surprised if this weakness continues as these shares are likely now over-represented in many fund's portfolios.

Chart 18

Large Cap Tech Stocks Are Booming!

FAAMG = FB, AAPL, AMZN, MSFT and GOOG

Year-to-Date Performance in % as of 6/26/17



Source: Goldman Sachs

The problem lofty of valuations is not contained to the US. While foreign valuations are lower, Chart 19 clearly points out global share prices have been advancing at a faster rate than global earnings in the last few years. While global earnings have picked up recently, it will take some time, or a noticeable correction in stock prices, before the two lines in Chart 19 cross again. Once again, this chart encourages wise investors to adopt a more vigilant approach to their portfolios at this point in the bull market. We cannot know when those lines will cross again, but it is not hard to see the current situation is unlikely to last considerably longer. At a minimum, stock prices should move generally sidewards for a period of time in order to resolve this imbalance between the past price advance and earnings growth.

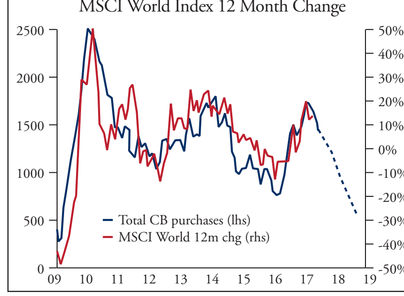
Chart 20

Quantitative Squeezing:

Big Risk to Share Prices

Total Central Bank Purchases vs

MSCI World Index 12 Month Change



Source: Citi Research

While high valuations are typically insufficient to alone cause a drop in equity prices, we do have a trigger in the Fed's more hawkish stance toward the financial markets. The Fed is likely to begin selling its bonds in the Fall and will accelerate the pace of those sales in 2018. Additionally, other central banks are expected to soon reduce their QE buying as well. Chart 20 highlights the tight correlation between central bank QE and global stock prices. As the trend in QE turns negative, the chance global stock prices follow is high. In light of the stretched valuations portrayed in Table 2, it would be pretty remarkable if share prices, which benefitted so clearly from QE on the way to setting new record highs, were able to continue rising in the face of this very significant change in the marketplace.

Table 2

Equities are at Peak Valuation Levels

Summary of S&P 500 Valuation Metrics

Valuation metrics	Aggregate index		Median stock	
	Current	Historical percentile	Current	Historical percentile
P/E to growth (PEG)	1.4	87%	1.9	100%
EV / sales	2.2	95%	2.8	99%
EV / EBITDA	11.5	88%	12.0	99%
Price / book	3.1	84%	3.3	98%
Forward P/E	18.0	89%	18.3	97%
Free cash flow yield	4.3	49%	4.3	50%
Cyclically adjusted P/E	25.5	87%	N/A	N/A
Median		**87%**		**98%**

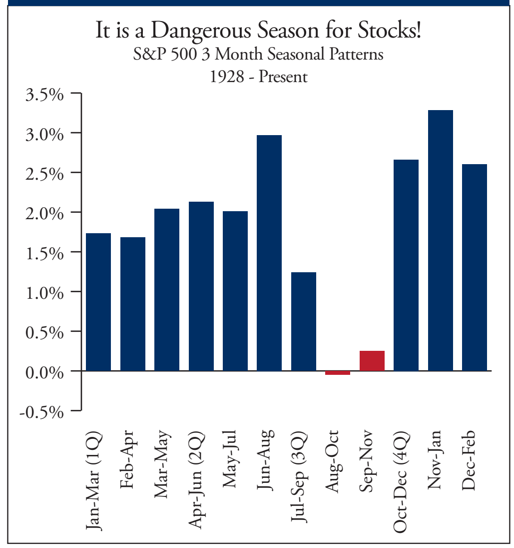
Source: Goldman Sachs

Still Cautious Given the Rising Odds of a Short Term Pullback

"One who is wise is cautious . . . but a fool is reckless and careless." Proverbs 14:16

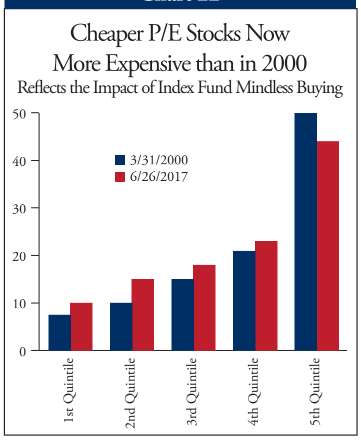
The odds were quite high the market would suffer at least a 5% pullback sometime during the second quarter, but equities, aided by central bank QE, ignored the odds and continued to rise. During June, however, the market did appear to be losing steam. Since a pullback was averted in the second quarter, the odds are now only higher one will occur in the third quarter as markets do not typically move continually higher. Moreover, the odds of market weakness during the third quarter are normally high anyway due to the characteristic seasonal pattern of share price movements witnessed over the decades. Since 1928, the three month period between August and October has actually averaged a slight decline, the only three month rolling period in the year to do so (Chart 21). July, however, is typically a good month for share prices and there is a good chance it will be again in 2017 in view of the strong earnings that should be reported during the month. Beyond July, however, the focus should shift to the Fed and its decision to implement what some refer to as QS or Quantitative Squeezing – beginning the process of selling the bonds in its bloated portfolio. Even ignoring the normal seasonality, this will be a significant hurdle for the markets to overcome without suffering some sort of setback. Just the psychological impact from this development alone should be sufficient to cause some traders to sell off some of their holdings. As the actual withdraw of liquidity from the market which accompanies the sale of the Fed's bond portfolio drifts through the markets, it is highly likely to have a negative impact.

Chart 21



Source: BofA Merrill Lynch

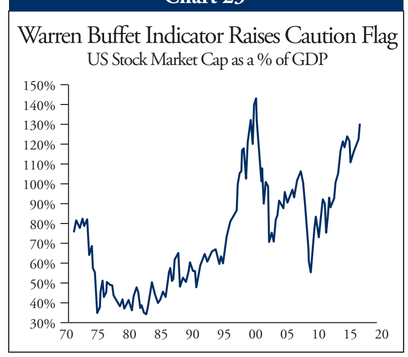
Chart 22



Source: Bloomberg

Should a setback for equities be imminent as we suspect, the impact could be widespread. While the FAAMG stocks seem certain to take a heavy hit in any sell-off, chart 22 depicts valuations on the cheapest 80% of the S&P 500 as measured by P/E are currently higher than near the peak of the technology bubble in 2000. This reflects the growing influence of the indiscriminate buying by index funds. In 2000, the focus was on the highest priced tech stocks while other sectors tended to be somewhat overlooked. Now, the buying is more broad-based due to the rising prevalence of passive investing. When the market does turn lower, we suspect there will be many panicked index fund investors who will rush for the exits thereby putting indiscriminate selling pressure on all stocks in the indices, at least for as long as their panic lasts. Should this happen, it will provide us with a great opportunity to reverse our cautious approach and invest in shares which have become undervalued due to mindless selling.

Chart 23



Source: BofA Merrill Lynch

Table 3

Stocks Rule in the Long Term
Comparative Investment Returns Since 1926

Investment	Gain Annum	Annualized Std Dev
S&P 500	10.0%	18.7%
Barclays Corporate Bonds	5.7%	5.9%
Barclays Treasury Bonds	5.6%	8.3%
Gold Bullion	4.6%	15.9%
Treasury Bills	3.5%	1.0%
CPI	2.9%	1.7%

Source: Ned Davis Research

Besides the flood of liquidity pouring into the financial markets from the central bank QE programs, the market has also been clearly aided by the best support it could have – strong earnings. At the moment, there is little indication earnings are at risk of collapse. Assuming this remains the case, the short term decline in equity prices we believe will occur before too much longer should not be very severe. From a time perspective, the markets are long overdue for a full scale correction, but this usually only happens when earnings are falling. Still, the US market cap to GDP ratio, a favorite indicator of Warren Buffet, is approaching the 2000 high (Chart 23). As a result, our best guess is investors will experience a smaller drop in share prices followed by a somewhat muted recovery phase as the Fed's Quantitative Squeezing kicks in. But this is still just an educated guess and any number of factors could lead to better or worse performance in the months ahead.

Observing the balance of risks, however, we still conclude cautious portfolio positioning remains the wisest choice. Moreover, we are mindful we have already produced good returns for our clients in 2017 and we believe we hold several stocks which have exceptional prospects that should continue to help us achieve positive returns even while we continue minimize market risk in our portfolios. This approach has worked well so far this year but, like the market, we could easily suffer a setback ourselves. As long term investors, however, we prefer to focus on the consistently superior returns equities have provided (Table 3) and do our best to add a little value with our portfolio positioning in the short term.

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

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

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

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

Additionally, we favor companies that clearly embrace:

- Honesty, Compassion, Diligence, Prudence and Creativity
- Support for quality products at fair prices and constructive stakeholder relations
- Support for a sustainable and healthy environment
- Support for charitable giving
- Support for the Jewish people and the state of Israel

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

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

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

BRI in Action – Comparing Good and Bad Corporate Behavior

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

Below you will find an example of both a company exhibiting exemplary attributes, First Energy, and one we avoid, PayPal. First Energy is a holding in some of our Stewardship Partners portfolios while we actively avoid ownership in PayPal 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 – First Energy – Mid-American Values

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

First Energy is one of the largest investor owned electric utility companies in the nation as measured by the number of customers served. First Energy came into being in 1997 with the merger of Ohio Edison and Centerior Energy. In 2001, First Energy nearly doubled its size with the purchase of General Public Utilities (GPU), the electric utility that had the dubious distinction of being the ill-fated owner of the Three Mile Island nuclear plant that suffered a serious accident many years previously (the Three Mile Island nuclear plant is no longer part of the company). A merger with Allegheny Energy in 2011 further boosted the company's geographic presence and added significant, highly efficient and environmentally friendly coal generating capacity. Today, First Energy consists of 10 individual electricity generation companies and serves approximately six million customers in six states surrounding Pennsylvania. Its service territory spans over 65,000 square miles and it owns 24,000 miles of transmission lines and 269,000 miles of distribution lines. First energy currently has nearly 17,000 megawatts of generating capacity and is one of the largest producers of wind power in its region with over 500 megawatts of wind power under long term contract. Its revenues now exceed $15 billion and the company employs close to 16,000 people. Located in a coal-rich area, First Energy generates just over half of its energy from coal with nearly a quarter from nuclear power and 11% from wind, solar and hydroelectric plants. Oil and natural gas account for only 9% of its generating capacity. Through its subsidiary, FirstEnergy Solutions, the company also provides fixed and variable rate power plans to customers outside its normal distribution territories in Pennsylvania, New Jersey, Michigan, Indiana, Maryland and Ohio. First Energy sums itself up using these words, "We are a forward-thinking electric utility powered by a diverse team of employees committed to making customers' lives brighter, the environment better and our communities stronger". Backing up its claim that it wants to make the environment better, the company says it and its predecessor companies have spent over $10 billion on projects meant to improve the environment since 1970.

The electrical generation and transmission business is highly regulated. As a result, the company is constantly being monitored by various federal, state and local government agencies, consultants and consumer watchdog groups. Even so, First Energy seeks to stay well ahead of these various overseers by maintaining high ethical standards and integrity in all the company's activities. Indeed, First Energy states the following, "FirstEnergy Corp. was built on a commitment to achieve success with an uncompromising focus on ethics and integrity; cornerstones of corporate governance. We are dedicated to ensuring that corporate governance is in place and working throughout our Company". This commitment is evident in the many corporate policies the company has put in place to direct and govern appropriate responses to a wide array of ethical issues that employees may face in the course of doing their work for First Energy. To the extent an employee is aware of and ethical lapse within the company, or even just concerned about a potential issue that has not yet metastasized into a problem yet, the company provides an ethics hotline any employee can call to confidentially report their concerns. Also, First Energy has appointed a Chief Ethics Officer to oversee the process of employee concerns being addressed and corrected where necessary, an unusual and positive step based on our past reviews of many other companies efforts to ensure high levels of integrity in their firms. First Energy's commitment to high ethical standards can be seen in the following statement from the company's website, "All employees will be provided a work environment free of harassment, discrimination, and unlawful or unethical business activities. Employees will conduct themselves in accordance with all laws and the highest ethical standards when interacting with customers, suppliers, and other employees".

First Energy is headquartered in Akron, Ohio and it serves a largely rural customer base. Not surprisingly, its corporate culture has a distinctly mid-American feel to it. Unlike many utility companies located in large cities, as well as corporations generally, First Energy has been able to largely avoid involvement in mainstream cultural issues which are in conflict with biblical teaching such as homosexuality, gay marriage and gender identity. The company has not provided financial support for groups supporting these sinful causes and has no company-sponsored groups for employees embracing these alternate lifestyles. On the other hand, it treats all of its employees, no matter their personal lifestyle decisions very well and fairly. Indeed the company has won many awards and received significant recognition from various race-related organizations for their efforts to offer opportunity to all who work at the company. Moreover, it has also been honored by various military affiliated organizations for the company's emphasis on those who have or are serving our country in the military services. Almost 10% of the company's workforce are veterans or are still serving in the reserves. The company has an extensive benefits package which includes competitive salaries and incentive pay plans as well as standard vacation and holiday-related time off. Leaves of absence can be granted for military service and employees can also get paid time off to deal with family emergencies. Employees also have the option of choosing among three healthcare plans to pick the one that best suits their particular needs. Vision care and prescription drugs are covered in these plans while a dental option is available for purchase by the employee. Health Savings Accounts and Flexible Spending Accounts are also offered so employees can customize and maximize their various company benefits. First Energy also provides a full year of salary in life insurance coverage for all employees as well as short and long term disability insurance. First energy also has a flexible 401-k plan which allows for both Roth or traditional 401-k deposits and where the company provides a generous match to any employee deposits with highly discounted First Energy stock. Moreover, First Energy is still offering a company paid pension plan for all qualifying employees, which is quite a rare benefit these days. The company also offers educational assistance for employees furthering their studies in areas which are beneficial to both the employee and the company. Interestingly, the level of financial assistance is tied to the grade received with up to 90% reimbursement for those employees receiving "A's". First Energy also promotes adoption by providing as much as $5,000 of financial aid for employees who adopt needy children. Recognizing life does not always proceed without difficulties, the company also makes available to its staff online, phone, in-person and/or video counseling with licensed behavioral health professionals. First Energy has also negotiated with local and national businesses to provide discounts to its workers and has negotiated discounted group plans for home, car, long term care and even pet insurance.

First Energy has also shown via its actions that it is a charitably-minded corporation. Since 2001, the company has given either directly or through its foundation over $64 million dollars to more than 3,300 separate charitable organizations. Each year it also spends $8 million in membership fees which help support a variety of other civic-minded organizations. The company, its employees and even its retirees have long been generous donors to the United Way campaign. Many company employees have participated in the United Way's Day of Caring where they paint homes, trim trees, perform minor home and auto repairs and pick up trash. Through the combined efforts of the company and its enterprising employees who have come up with a variety of fun and innovative fundraising techniques, the company has supplied over 27 million meals to those in need in its communities since 2001 in cooperation with the food bank Harvest for Hunger. The First Energy Foundation, which is completely funded with gifts from First Energy, has also supplied $1.7 million in matching gifts to charitable organizations its employees donated to and has given away a total $56 million since 2001 to charities helping the local community.

First Energy'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 being an exemplary corporate citizen as well as its outstanding treatment of its employees and commendable charitable efforts, 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 seeks to benefit those it comes into contact with and one we can be proud to own!

The Bad – PayPal Holdings – Promoting Sin

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

PayPal is a company familiar to many as it came to prominence in the last decade for suing its technology to provide an easy and safe means of making payments for online purchases. Consumers and businesses alike use its PayPal, PayPal Credit, Venmo and Braintree products to process patients quickly, easily and safely. Unfortunately, PayPal is also company that has positioned itself on the leading edge of corporations supporting cultural changes which are at odds with what the bible teaches us about such matters. Most recently, the company indicated it would halt its planned corporate expansion in North Carolina due to that state's since overturned "bathroom bill" which required people to use the public bathroom designated by their birth gender rather than any gender a person may have chosen to adopt. While we sympathize with those who are suffering from gender confusion and trust they can receive the help they need, it is pretty clear to us this latest manifestation of new rights for a very small percentage of people that causes concern and potential harm to a much greater number of citizens, is at odds with the Word of God. God created gender and it is our view that he knew what He was doing when He did so and that we should not try to alter what He created. In the end, like successful liberal efforts to alter the definition of marriage, we believe such actions to change what the Lord created as a foolish rebellion against those building blocks of a healthy society that our Lord created for our own well-being. Accordingly, we are unwilling to invest in a company which has put itself at the forefront of this rebellion against our Lord.

Excluding PayPal 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.

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 – Little Lights Urban Ministries

"Whoever welcomes one of these little children in my name welcomes me…" Mark 9:37

Recently, Stewardship Partners and a group of our clients generously participated in a one-day competitive fundraising event called "DoMore24" to help a Washington, DC based ministry called Little Lights raise money to support its programs which provide meaningful spiritual and physical assistance to children and their families living in poverty in government run housing projects just one mile away from our nation's capital building. We became familiar with Little Lights when Stewardship Partners' founder's daughter took a job with the ministry four years ago and have been participating in the DoMore24 campaign ever since. In this fundraising effort, many Washington, DC based charities strive to raise the most money in a 24 hour period with the winners receiving significant prizes. Little Lights, with the help of Stewardship Partners and its clients, has won the competition in each of the last three years, thereby bringing into the ministry significant additional funds in prize money.

Little Lights was founded by Steve and Mary Park in 1995 to share God's love with the under-served children and families in Washington, DC. Over the ensuing years, Little Lights has successfully done just that with its influence growing each year within the housing projects it serves and expanded programming. In the Hopkins and Potomac Gardens housing projects the ministry currently serves, 90% of the children live in single-parent, female-headed households which survive on about $9,000 in annual income. Only 2% of the children in these projects will go on to get a college educations without outside mentoring and assistance. Little Lights provides such help and does so from a Christian perspective. By partnering students with an individual Christian mentor or tutor, Little Lights believes it achieves the best outcomes due to the importance of personal relationship in holding the students they serve accountable. Little Lights found that of those students who participated in the ministry's afterschool "Homework Club" that helps students complete their homework assignments, 82% did actually complete their homework assignments. The ministry also provides specific math and reading tutoring and an extensive program during the summer months when children would often have neither supervision nor food since there is no school. The ministry helps fill the kid's day with fun, learning and bible study. Additionally, the ministry runs the Clean Green Landscaping Team which provides work for adults in the projects, allowing them to provide for their families.

Little Lights also provides a mentoring program where Christian volunteers are paired with individual children. Mentors meet regularly with their assigned child seeking to be a positive influence in any way they can. Little Lights provides this simple instruction to their mentors, "As a Christian mentor, your goal is twofold: To love your mentee as God loves - freely and unconditionally, and to model what it means to love and follow Jesus". The long-term relationships formed with these at-risk children may well be the most impactful Little Lights program.

The Christian Ministry Marketplace – Helping Donors Give Wisely

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

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

The Christian Ministry Marketplace
Resources for Christian Donors

WHY to give to Christian ministries?

Teaching on Stewardship:

- Crown (crown.org)
- Eternal Perspectives (epm.org)
- Generous Giving (generousgiving.org)
- Global Generosity Movement (generositymovement.org)
- The Steward's Way (thestewardsway.org)
- The Gathering (thegathering.org)
- MaximumGenerosity.org (maximumgenerosity.org)
- Stewardship Ministries (stewardshipministries.org)

HOW to give with a discerning mind?

Professional Advisors:

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

Donor Advisors:

- Excellence in Giving (excellenceingiving.com)
- Calvin Edwards & Company (calvinedwardscompany.com)
- E Six-Thirteen (esixthirteen.com)

WHERE to invest in kingdom ministries?

Ministry Research:

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

Ministry Mutual Funds:

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

Featured Ministry Marketplace Participant – Waterstone

"You will be made rich in every way so that you can be generous on every occasion." 2 Corinthians 9:11

Founded in 1980 as the Christian Community Foundation, the organization later changed its name to Waterstone. It helps donors to Christian charities, financial advisors and Christian charities themselves by offering wise counsel and innovative giving strategies to promote generosity to the Lord's work. Over the last 37 years, Waterstone has helped many people to sort through their complicated financial situations in order to reduce taxable income, eliminate estate taxes and minimize capital gains in order to free up as much money as possible to be donated faithfully to worthwhile Christian ministries. Over 4,900 different ministries have been blessed by the work of Waterstone with over $511 million in disbursements to a wide variety of projects since 1980. The uses of the foundation's gifts have ranged from orphan care to campus ministry to refurbishing CS Lewis' Oxford home and just about anything in between. Currently, there are over 2,600 Waterstone client giving accounts which hold over $300 million in future donations to Christian ministry. Waterstone has made a special effort to reach out to Christian financial advisors. The open platform the foundation offers and the multiplicity of aids it makes available to advisors make it easy for them to provide enhanced service to their clients while helping them properly set and meet their charitable goals. Whatever the need may be of a donor, financial advisor or charity, there is a very good chance Waterstone will be able to provide a solution which will make the giving process flow easily, provide unanticipated benefits to all involved and yield more eternal rewards than otherwise. When Stewardship Partners' founders were accumulating the needed funds to start MinistryWatch.com, they took advantage of the helpful staff and resources available at Waterstone to help get our ministry launched 19 years ago. Since that time, Waterstone's services and capabilities have expanded dramatically so that now many more Christian donors, financial advisors and Christian ministries can be blessed by this ministry's efforts. Perhaps you can help Waterstone reach $1 billion in total giving by 2020! One thing is certain, Waterstone will help you use all the available tools and resources to make the most of your giving to the Lord's work.

Knowing Jesus Christ as Your Lord and Savior

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

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

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

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

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

STEWARDSHIP PARTNERS

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