STEWARDSHIP PARTNERS
MARKET COMMENTARY

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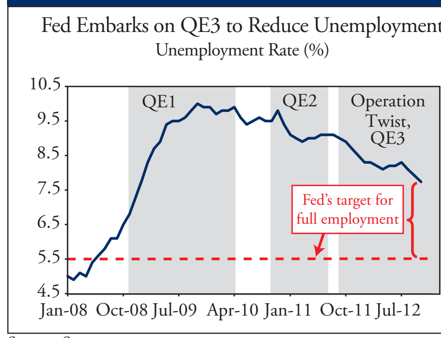
Shares Rise on Reduced European Threat and Government Intervention

"The end of a matter is better than its beginning, and patience is better than pride." Ecclesiastes 7:8 (NIV)

Normally, the third quarter of the year is the most treacherous for investors. August and September are historically the worst performing months of the year for the S&P 500. As we suspected, however, 2012's third quarter produced very favorable results for equity investors as share prices rose throughout the world (Table 1). The MSCI World and Emerging Market Indices rose 6.7% and 7.7% respectively in the quarter, with the strongest returns being achieved in some of the riskiest European countries. As European policymakers began to make meaningful progress on resolving the region's government debt and banking debacles, there was a significant short covering, relief rally. In the last two months of the quarter, stock indices in Spain and Italy jumped 20% and 14% respectively. In our last Quarterly Commentary we suggested several issues that might "go right" and each did indeed move in a positive direction. In addition to a reduced threat of a European financial system collapse (at least temporarily), all the major central banks of the world intervened once again in the financial markets in an effort to promote faster economic growth and reduce unemployment. Chart 1 highlights why the Fed has embarked on a new, highly aggressive QE3 program. The Fed's current target for full employment is 5.5%, far from the current level of 7.8%, thereby justifying their forceful use monetary policy. While Chart 1 indicates previous Fed QE efforts helped reduce the unemployment rate, the current 7.8% rate is significantly understated due to large numbers of people falling out of the workforce and, some believe, election-related tinkering with the numbers. We have noted in the past that China's economic reports often seem incongruent with the facts. Now we wonder if the US unemployment rate has also been subject to tampering as the sharp 0.5% decline in the rate over the last two months simply does not square with the current economic conditions. Hopefully, it is just a suspiciously timed statistical fluke.

Chart 1



Source: Strategas

Table 1

3Q12 & YTD Total Returns

US Indices	3Q12	YTD
S&P 500	6.35%	16.44%
S&P 500 Value	6.30%	15.78%
S&P 500 Growth	6.40%	17.00%
NASDAQ	6.51%	20.65%
S&P 400 (Mid Cap)	5.44%	13.77%
S&P 600 (Small Cap)	5.40%	13.80%
Treasury Bonds	0.58%	2.26%
High Grade Corp. Bonds	3.98%	9.04%
Gold	10.94%	13.33%
Global & International Indices		
MSCI World	6.71%	13.01%
MSCI EAFE	6.92%	10.08%
MSCI Euro	10.24%	10.72%
MSCI Far East	1.46%	5.92%
MSCI Japan	-0.84%	2.27%
MSCI Emerging Markets	7.74%	11.98%
US Economic Sectors		
Energy	10.14%	7.56%
Materials	5.10%	11.96%
Industrials	3.62%	11.23%
Consumer Discretionary	7.45%	21.36%
Consumer Staples	3.83%	12.74%
Health Care	6.16%	17.80%
Financials	6.95%	21.61%
Information Technology	7.45%	21.79%
Telecom	8.05%	25.89%
Utilities	-0.53%	4.27%

Source: Bloomberg

While time may eventually reveal if there was some election-related skullduggery involving the unemployment report, President Obama is still benefitting from a late mini-surge in the US economy. Auto and housing sales have picked up as the now healthier US banking sector seems a bit more interested in lending money to consumers and businesses. Consumer confidence has also improved recently, which will definitely aid Obama's re-election effort. This improved US economic performance is coming, however, against a backdrop of slower global growth. Europe remains trapped in recession due to austerity policies needed to reign in massive debt in several of its countries. China's economy is also likely performing a lot worse than the government is revealing. As a result, Japan and the emerging markets are also seeing decelerating economic growth. Additionally, these better results could be undermined shortly by the impending "Fiscal Cliff" the US will fall over at the end of 2012 if legislative changes are not enacted to prevent massive tax increases and spending cuts from going into place. The third quarter offered a pleasant respite from the angst the markets have faced in recent years, but challenges for the markets remain during the normally strong fourth quarter.

Stewardship Partners portfolios rose in value during the third quarter and our relative performance improved as the quarter proceeded. Still, the big rally in risky European markets, where we believe it remains unsafe to invest, impacted our relative performance for the quarter. Our stock selection improved as several stocks which hurt our returns earlier in the year bounced significantly off their highly oversold second quarter lows.

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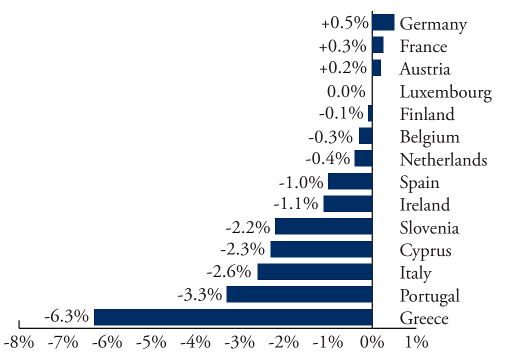
Global Economic Growth Slowing But the US May Be Starting to Improve

"The desert and the parched land will be glad; the wilderness will rejoice and blossom." Isaiah 35:1 (NIV)

Chart 2

Europe's Economy Is Mostly Shrinking
Annualized GDP Growth Rate as of 2Q12

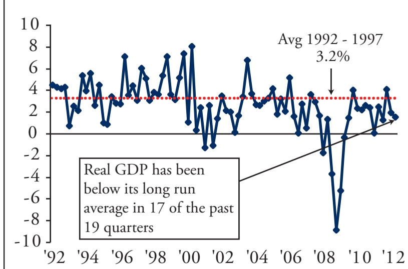


Source: tradingeconomics.com

At this time last year, there was a frighteningly real possibility of an imminent systemic collapse in the global financial system for the second time in four years. European politicians seemingly could not fully grasp the severity of their predicament and only dramatic action by the European Central Bank (ECB) ultimately saved the day. Since that time, worthwhile progress has been made towards shoring up the European mess and the global economy has been able to move several steps away from the edge of the abyss it was looking into at that time. While it would not take much to be right back at the precipice of this cliff again, there is no doubt the global economy is currently moving slowly away from such a potential debacle. The risk of a calamitous outcome for the European and global financial systems, while far from eliminated, has been meaningfully lowered. While the worst case scenario has thankfully thus far been avoided, Europe has still had to endure a recession whose length and depth remain unknown (Chart 2). Moreover, Europe still faces sizable fiscal and monetary execution risks, as well as the possibility of civil unrest, as it seeks to permanently put the threat of systemic financial collapse behind it. It will be some time before the "all clear" signal can be given for Europe, but we are grateful for the progress currently being made. As the region works to get its economy back in balance via severe austerity programs in its most troubled nations and ill-advised, tax-the-rich policies in France, we are not expecting much of a contribution to global economic growth from Europe anytime soon. Even in the best of times, however, Europe's socialistic overlay on capitalism constrained innovation and growth.

Chart 3

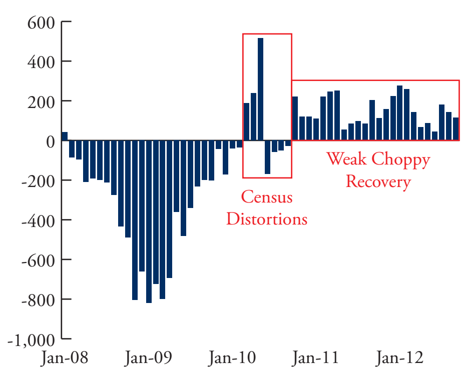
Tepid US Economic Growth Continues
% Change in Quarterly Real GDP, SAAR



Source: Strategas

Chart 4

Employment Growth Also Consistently Weak
Monthly Change in Nonfarm Payrolls

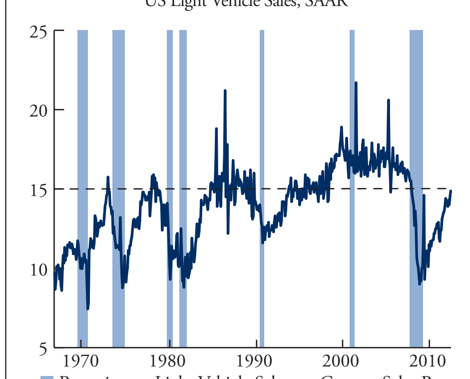


Source: globaleconomicanalysis.blogspot.com

Europe's recession has certainly impacted US economic performance as well. US multinational companies obtain sizable sales from Europe and weakness there has surely contributed to more cautious spending by corporate management. With US consumers also seeking to rebuild their balance sheets during this time, US economic growth has been below average in 17 of the last 19 quarters (Chart 3). This substandard economic growth has also translated into a weak recovery in employment (at least according to the more believable non-farm payroll numbers as seen in Chart 4). While US economic and employment growth has been weak, it has been - unlike Europe - at least still moving in the right direction.

Chart 5

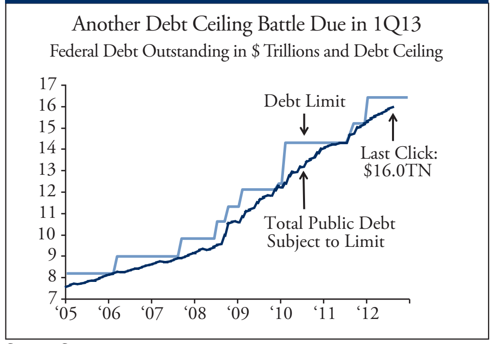
Auto Sales Signaling Faster Recovery
US Light Vehicle Sales, SAAR



Source: Calculatedriskblog.com

Furthermore, there are some early signs the pace of growth in the US may finally rebound to a more normal level. Recently, both the ISM Manufacturing and Services Indices rose to higher than expected levels. Auto sales (Chart 5) have also just jumped to 15 million vehicles annually. Consumer credit, admittedly boosted by student loans which increasingly look to be partly welfare payments, vaulted to more than twice the expected level in the most recent report. This indicates banks are now more willing to lend as well, which is critical to restoring more normal growth in the US economy. All these improving economic indicators, however, have not yet established trends which would give us confidence economic performance has moved to a higher, more permanent level. Unfortunately, this nascent progress could easily be undermined by an unresolved or poorly resolved Fiscal Cliff or even by continued consumer and business conservatism in the face of an Obama election victory. Both groups may assume there will not soon be a credible solution to the debt and deficit issues threatening our nation's long term prosperity. An Obama election victory will guarantee Obamacare will be implemented, which will make any serious progress on the deficit extremely difficult to accomplish. It is unlikely business managers or investors will be aggressively investing for future growth as long as there is no credible solution to the US debt and deficit problems. As a result of a lack of optimism for the future, economic growth might remain low if Obama wins another term.

Chart 6



Source: Strategas

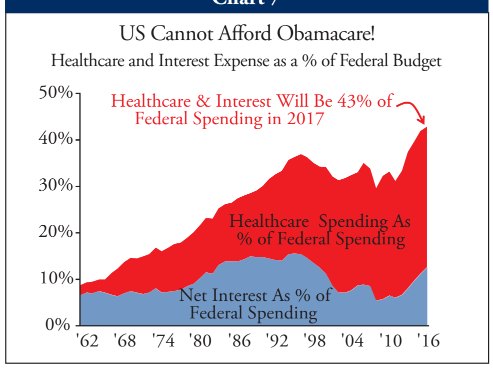
Shortly after the election the US is going to again approach its debt ceiling (Chart 6). Between negotiations on this and the Fiscal Cliff, significant short term uncertainty could negatively impact the markets. As always, these issues will ultimately be dealt with, but probably not without first squeezing every ounce of political negotiating advantage from the opposing party. As a result, investors will almost certainly have to endure another ugly, high stakes political fight over these issues that will not end until about one second after a three-times extended deadline for these negotiations. At the moment, investors are trusting this process will go smoothly. We suspect after the election results are in, this will become a bigger issue for the markets as you need to know who will be in power to project how these negotiations might proceed. Without progress on the debt, deficit and fiscal cliff, the US could also be subject to further debt downgrades. On the other hand, we are hopeful it will become quickly evident a new Republican Congress will take up tax reform, the debt and the deficit as its first order of business. If the markets believe a credible solution might finally be coming forth on these issues, the economy might finally blossom and stocks could respond favorably. If this can be coupled with continued progress in restoring Europe's financial health and a successful conclusion to China's recent efforts to restore its economic momentum, the reaction of share prices could be quite impressive. But that is a lot of "ifs" and there is plenty of room for disappointments as these developments play out in the coming months.

US Election Results are Critical to Short and Long Term Prosperity

"See, I set before you today life and prosperity, death and destruction." Deuteronomy 30:15 (NIV)

If President Obama is reelected, the chances of a favorable short and long term economic outcome immediately fall considerably. Since the president is unlikely to overturn his signature legislative effort, Obamacare, bringing the nation's debt and deficit back to anything resembling manageable levels would involve political concessions on spending cuts or tax increases which would be virtually impossible to realize. In fact achieving such changes will be extremely difficult to accomplish even if Obamacare were overturned. Chart 7 indicates the combination of higher interest costs (assuming low interest rates which may not be accurate) from the huge deficits the US is now running and increased spending on healthcare as a result of Obamacare (also likely underestimated) means these two items alone will make up 43% of the federal spending in 2016. Additionally, we expect it will only get worse in the years beyond 2016. Since the decisions required to put the nation's finances on a credible path to fiscal sustainability in light of this are politically impossible, if Obama is reelected the US will likely only come to terms with its fiscal mess under crisis conditions. And that crisis would likely not be many years off as debt rating agencies can do the math and would likely be regularly downgrading the US debt rating in the years to come. This alone would spike the interest costs in Chart 7 well above the assumed level and the US budget would quickly turn into a fiasco. Unfortunately, all this is too complicated to communicate effectively and, therefore, is largely being ignored by the candidates and the electorate.

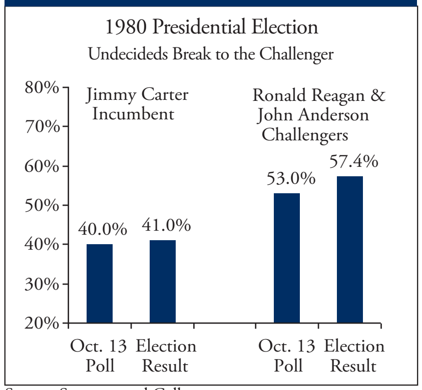
Chart 7



Source: Strategas and OMB

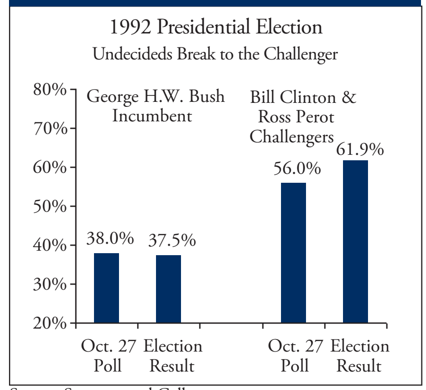
The best case scenario for both investors and the nation is a Romney victory coupled with Republicans getting at least 50 Senate seats while retaining control of the House. If this were to occur, Obamacare could be overturned and serious budget and tax reform might be passed. Even then, we would not expect the Republican controlled government to make exceptionally courageous (read politically painful) decisions since Romney and many senators would immediately become concerned about their reelection chances. Still, if Obamacare can be largely done away with and some other budgetary changes implemented, there is a chance meaningful progress on the debt and deficit can be achieved.

Chart 8



Source: Strategas and Gallup

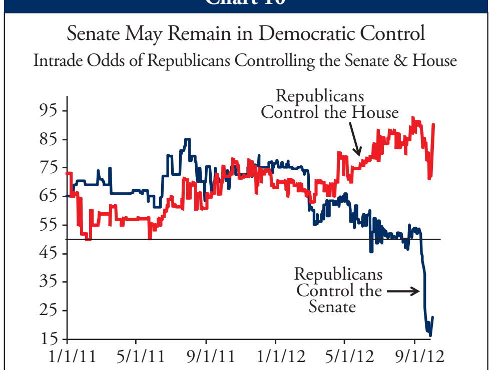
Chart 9



Source: Strategas and Gallup

With a month to go before the election in a still tight race anything can happen. Even so, Romney has an uphill fight to achieve the presidency due to the electoral college math and his current position in polls. Following Romney's trouncing of Obama in the first debate Obama still maintains an advantage. Polls in the key battleground states are now moving in Romney's favor, but this trend must be maintained to be confident of victory on election day. Essentially, Romney must win almost all of the battleground states to win the presidency. While it is conceivable he could win without Ohio, it is not likely. At the moment, the latest polls show Ohio remains in Obama's favor but within the margin of error for the polls. If Romney can keep the race at least at a dead heat in the battleground states, however, he should win. Charts 8 and 9 show undecided voters typically break for the challenger. If this pattern was to hold and Romney can maintain a statistical tie in polls of the key states, his chances of winning the presidency improve greatly. While we expect president Obama to perform much better in the last two debates, we believe chances are this will remain a close race right up until election day. For the economic health of our nation, among other concerns, we hope and pray Romney will win. Clearly, a race this close could be critically impacted by any number of factors in the days ahead, including dirty tricks. No doubt both sides are considering how they might influence turnout or voters perceptions, particularly in Ohio. The stakes are very high so be prepared to be outraged and disappointed by the behavior of both campaigns, or at least those loosely associated with their campaigns, in the closing days.

Chart 10



Source: Strategas

Regrettably, a Romney victory by itself, should it be achieved, is not sufficient for investors to justify optimism about the future course of the US economy. Republicans must also gain at least 50 Senate seats to have a chance to overturn Obamacare and make crucially needed fiscal reforms. Unfortunately, at the moment, the Republicans chances of winning the Senate are not good. Chart 10 highlights the low odds bookmakers are making currently on the Senate coming under Republican control. They need to win 7 of the 11 seats up for grabs. We suspect Romney needs to win decisively in the last two debates and open up a significant lead in the polls in order to obtain long enough coattails to drag the Senate over to Republican control. This seems unlikely at the moment. Moreover, the composition of Republican senators would be important as well since a few might be so left-leaning they could not be counted on to vote with the majority on Obamacare or other budget issues. We will watch the Senate races closely and hope for a strong finish by the individual candidates as sensible efforts to address the debt and deficit promptly depend upon full Republican control of our government. In the end, we would not be surprised if Republican Congressman Todd Akin's bizarre comments regarding rape cost him the Senate seat in Missouri but, much more meaningfully, keep the Republicans from gaining control of the Senate.

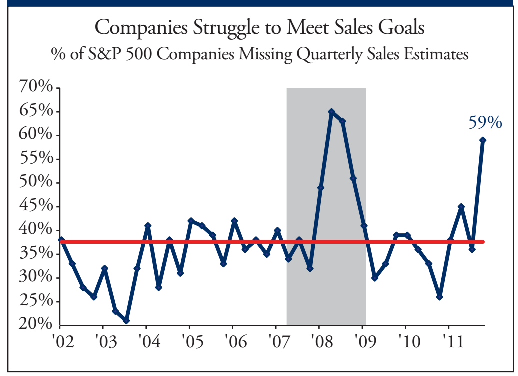
No matter what the election outcome, some elements of the fiscal cliff are not likely to be delayed or rescinded. Since President Obama will still be president on December 31, 2012 even if he loses the election, it is hard to imagine him doing anything to delay the impact from Obamacare on the economy. Therefore, all Obamacare taxes will initially go into effect on schedule and it seems likely the payroll tax deduction may also expire. A huge battle will likely ensue in the lame duck Congress on delaying the Bush tax cuts with the Republicans wanting all taxpayers to continue to benefit from these cuts while the President will veto any bill that does not let the Bush tax cuts expire on the rich. In our view, no matter what the election outcome, the economy will take a hit on January 1st from at least a portion of the Fiscal Cliff. That can't help corporate earnings so share prices could come under pressure after the election. Additionally, the increase in capital gains and dividend taxes could alter the course of share prices during the normally strong post-election and fourth quarter period. Selling pressure could easily be higher than normal as taxable investors seek to sell under the very low capital gains rates in place through the end of the year. The strength in high yield stocks seen in recent years might also wane as dividend tax rates are expected to jump from 15% to 43.4%! On the other hand, there is a small chance some cash rich companies (which most companies are at the moment) might issue large special dividends before the end of the year in order to take advantage of the current low rate. We will be able to judge the anticipated impact of all these issues better after the election results are available.

Earnings Under Pressure but CEOs Continue to Beat Forecasts

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

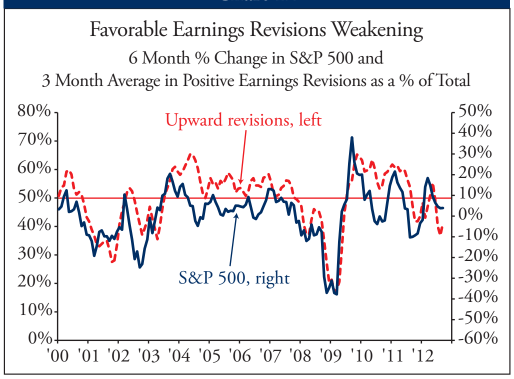
No matter what the election outcome, however, there will be portions of the Fiscal Cliff going into effect on 1/1/13. These higher taxes will reduce economic growth at least slightly (and perhaps much more depending on the election outcome). Already, companies have faced slowing sales growth due to mediocre growth in the US, recession in Europe and slowing growth elsewhere in the world. During the second quarter almost 60% of the S&P 500 produced sales lower than analysts had forecast (Chart 11). Even so, most companies still managed to beat their earnings forecasts due to the superb managerial skill which has been on display since the crash in 2008. Earnings may be beating expectations, but they are not growing very fast at this point. In the third quarter, some forecasts suggest S&P 500 earnings will fall slightly from last year's level. Several high profile corporations have also recently lowered their earnings guidance for the remainder of the year. With profit margins already at high levels and sales growth tepid, it has to be getting increasingly difficult for corporate managers to keep delivering better than expected earnings. While I have little doubt CEOs can continue to deliver good earnings if we continue in a "muddle through" economy, earnings would certainly suffer if the US stumbled into a full-fledged recession.

Chart 11



Source: Strategas

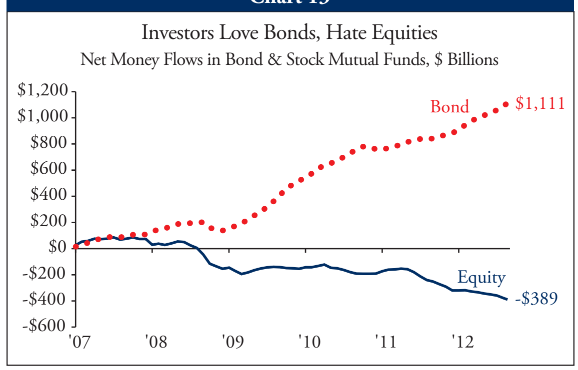
Chart 12



Source: Strategas

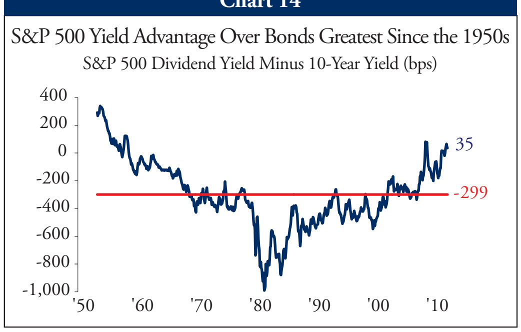
Chart 12 shows how earnings revisions and the performance of the S&P 500 have historically been tightly correlated. The trend in earnings revisions has been slightly lower recently, falling below the 50% mark indicating a bit more downward earnings revisions than upward ones. Still, the S&P 500 put in a good performance in the third quarter bolstered by the expectation of QE3. We believe the Fed felt the need to implement a third round of QE because of the proximity of the Fiscal Cliff. Hopefully, the impact of QE3 will be sufficient to offset the negative influence on economic growth coming from the Fiscal Cliff. Despite the certainty of the GNP hit coming from the Fiscal Cliff, we believe it will not be sufficient to knock the US economy into recession. As a result, while earnings may be under a little pressure as we end 2012 and enter into 2013, we do not think it will be too large of a problem for CEOs to contend with. Neither the economy nor earnings seem likely to fall off a cliff based on what we know now. At the same time, neither is likely to shoot higher either. With the excess liquidity the Fed in pumping into the financial markets, this may be adequate to allow share prices to have an upward bias in the months ahead.

Chart 13



Source: Strategas

Chart 14



Source: Strategas

Another factor which will eventually come into play is a reversal of the long term trend for investors to favor bonds over equities (Chart 13). Absent a huge shock to the global economy, it appears interest rates will struggle to move lower. During the third quarter, interest rates were basically unchanged, meaning bond investors did not make much money. It cannot be too much longer before investors start recognizing equities are performing much better than bonds and start moving money back into stocks. If interest rates were to rise (we are not expecting this at this time) and bonds began losing money, there could be a flood of money moving from bonds to stocks. Under current circumstances, it simply makes little sense to for investors to have so much money in bonds and so little in equities. Moreover, as seen in Chart 14, the S&P 500 now has an average yield greater than the US 10 Year Treasury bond. Such an advantage has not been seen since the 1950s! If global calamity can be avoided, equities should provide returns far superior to bonds in the long term.

Liquidity, Valuation and Seasonality Could Keep the Bull Running

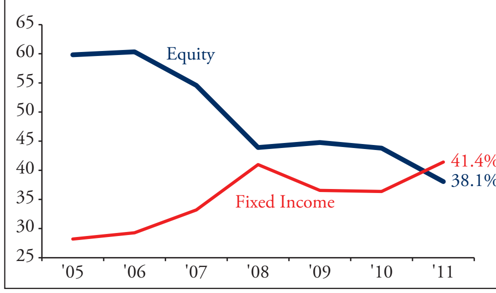
"It may be that then your prosperity will continue." Daniel 4:27b (NIV)

Equities may prove to be the best pick for long term investors right now for several reasons. While the short term path of share prices could easily be volatile in view of the election (although stocks typically rise in the aftermath of the election no matter which party wins) and the Fiscal Cliff risk, the longer term trend should be positively influenced by the attractiveness of shares versus bonds noted above, the correction of the current under allocation to equities by institutional investors (Chart 15) and hopefully, a slowly improving environment for risk-taking as governments make the hard, but required, choices to stabilize their finances. Most of the major nations of the world are already at or very near a point where they no longer have the option of postponing such tough decisions about spending and taxation. Accordingly, those choices will be made and needed corrective measures are almost certain to be put in place. The consequences of making these hard decisions will probably be a period of slower than normal economic growth and continued low levels of inflation (assuming serious monetary policy mistakes can be contained or avoided). Slow economic growth should produce slow earnings growth but if recessions can be avoided, share prices could perform sufficiently well to attract demand from under-allocated pension funds and others investors.

Chart 15

Pension Funds Need More Equities

Pension Fund Asset Allocation Between Stocks and Bonds

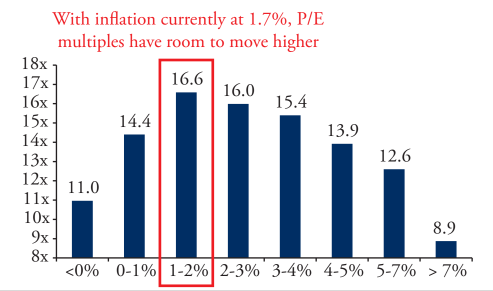


Source: Strategas and Milliman 2012 Pension Funding Study

Chart 16

Average S&P 500 P/E at Different Levels of Inflation

1950 - Current



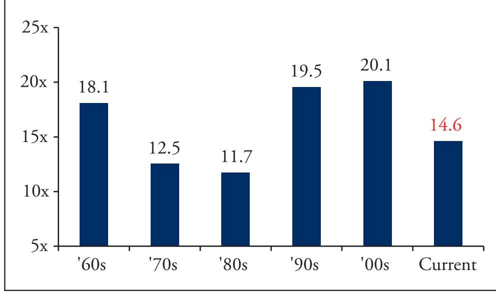
Source: Strategas

Moreover, in a world where growth is low, inflation pressures muted and liquidity in the financial markets abundant, valuations for equities are likely to expand. Chart 16 indicates that P/E multiples on stocks have averaged at least 16x when the inflation has been between 1-3% annually. We believe the Fed is willing to temporarily accept inflation as high as 3% at this time in order to help promote employment growth via QE3. While we are not sure QE3 will have much influence on employment, we do recognize the excessive liquidity produced can create favorable results for shareholders via expanding P/E multiples. If earnings and interest rates remain relatively stable, share prices could easily move higher as this multiple expansion occurs.

Chart 17

Average S&P 500 Trailing P/E by Decade

1950 - Current



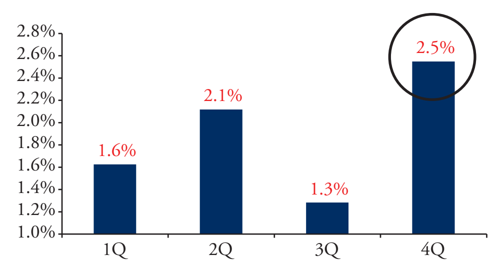
Source: Strategas

Given the current level of the S&P 500's P/E is 14.6x (Chart 17), the potential for a higher P/E multiple is noteworthy. P/Es outside the US are often significantly lower. One reason the current P/E for the market remains low is the risk of calamity. With this risk of global systemic financial collapse subsiding at the moment, the markets have been free to rise on the back of higher valuations as we have already seen in 2012. Should progress on this front continue, we believe the P/E of the S&P 500, for example, could easily expand by 2 up to the 16.6x level indicated in Chart 16. With the S&P 500 EPS at around $100 per share currently, such an increase in valuation would add 200 points to the value of the index or roughly a 16% advance even with no rise in earnings from current levels. Investors should not overlook this possibility, particularly when the Fed is providing the needed liquidity to the market.

Chart 18

The Fourth Quarter Is Usually a Good One!

S&P 500 Quarterly Performance Since 1928



Source: Strategas

In the short term, the fourth quarter has historically been the best for the market. While an Israeli strike on Iran or other factors could upset this relationship this quarter, the combination of low valuations, QE3 derived liquidity and seasonal tendencies offer hope of good returns. Offsetting these favorable forces are the uncertainty surrounding the Fiscal Cliff and potentially increased selling due to rising capital gains tax rates in 2013. On balance, we believe share prices are likely to end the year higher than they are now.

We at Stewardship Partners continue to be grateful for the opportunity to serve your investment needs. Please do not hesitate to contact us if you have any questions or if we can be of assistance.

STEWARDSHIP PARTNERS

Biblically Responsible Investing COMMENTARY

Biblically Responsible Investing (BRI) – Investing as Jesus Would

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

Stewardship Partners, founded in 2000, is a leader in the field of investing with a Christian perspective, a form of Socially Responsible Investing (SRI) known as Biblically Responsible Investing (BRI). Rusty Leonard, CFA, Stewardship Partners' founder and CEO, practiced this investment philosophy while managing over $3 billion of assets as a portfolio manager 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 (NIV)

Below you will find an example of both a company exhibiting exemplary attributes, PACCAR, and one we avoid, Merck. PACCAR is a holding in some of our Stewardship Partners portfolios while we actively avoid ownership in Merck 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 – PACCAR – Excellent Stewardship and Generosity

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

PACCAR is the leading manufacturer of light, medium and heavy duty trucks in the world. Its Kenilworth, Peterbilt and DAF branded trucks are familiar to anyone who has travelled the highways in North America and Europe but it also has operations in India, China, Australia and Latin America. The company's operations in China, while still small, can actually be traced all the way back to 1910. Almost half the company's revenues are derived from North America with about one-third coming from Europe and the remainder from the rest of the world. PACCAR's nearly 1,800 dealers located throughout the world provide a strong distribution presence for its sales, service and financial service business segments. The company sells its trucks and parts into over 100 countries and is expanding rapidly in Asia and Latin America. Its financial services business operates in 15 countries selling insurance and offering loans and leases for the vehicles the company sells. PACCAR's leasing business has a fleet of over 25,000 vehicles in North America and its loan portfolio covers a further 150,000 vehicles whose loan value exceeds $9 billion. While PACCAR's customers are happy with the high quality, innovative products the company produces, shareholders of PACCAR have been thrilled with its strong financial results over the decades. Despite operating in a highly cyclical business, the company has achieved profitability in each of the last 73 years and has paid a dividend every year since 1941.

PACCAR is not a Stewardship Partners holding only because of its exceptional financial track record and history of delivering good returns to shareholders. It also is a company which has demonstrated it is a good steward of its privileged position as one of the companies fortunate to have flourished under our capitalistic economic system. We particularly appreciate this extract from the company's code of conduct: "PACCAR conducts business so as to reflect the highest ethical standards, fulfill our legal obligations, and meet our social responsibilities. We strive to gain the favorable regard of customers, shareholders, employees, governments, and the general public through superior performance and effective communications." Stewardship Partners actively seeks to own companies which recognize their goals go beyond simply making the highest possible profit and do their best to live up to the Biblical injunction to "love your neighbor as yourself". Indicative of the company's commitment to sound business practices founded on honesty and integrity is its comprehensive, 18 page Code of Business Conduct covering discrimination, harassment, bribes, conflict of interest, insider trading and many other issues. Employees have access to an 800 number to anonymously report potential violations. The company's senior financial officers have a separate additional code of ethics they must sign and abide by in a further effort to avoid financial transgressions.

One key element to measuring a company's stewardship is how well it treats its own employees. By this metric, PACCAR ranks highly. PACCAR has an extensive list of worthwhile benefits available for its employees. In the insurance area, the company has health, dental, vision, life and disability coverage for its workers. Some of these insurance plans can also be purchased for an employee's family members. A flexible spending account is also provided so employees can pay for some of these benefits with pretax dollars. The company also has a full complement of savings plans for employees, including a pension plan, an employee stock purchase plan and a 401(k) plan. PACCAR also offers a tuition reimbursement plan, a scholarship program, a leadership development course and offers interest-free loans to help employees purchase computers. PACCAR also has a matching gift program for donations made to educational institutions. The company also offers free access to counselors for employees and their families coping with a variety of personal issues.

Not surprisingly, PACCAR has won numerous awards for its excellent customer service, its technological innovation and its commitment to philanthropy. PACCAR was named Washington State's Philanthropic Company of the year for its many contribution to the state's charitable institutions, particularly in the educational realm, over its more than 100 year existence. In the last five years, the PACCAR Foundation, which has been in existence since 1951, has given over $40 million to a variety of organizations including the Juvenile Diabetes Foundation, the United Negro College Fund, various Christian schools, the US military academies and the Boy Scouts, among many others.

The company also takes its environmental stewardship seriously. PACCAR uses both internal and external environmental auditors to measure its success at reducing its environmental impact. Green power is used at its Washington facility, efforts are ongoing to improve the fuel efficiency of its products and its Kentucky manufacturing facility was recognized by the state for its Excellence in Environmental Leadership.

PACCAR's good works are, of course, no guarantee of long-term investment success. As Biblically Responsible Investors, however, the company's commitment to excellent stewardship and its good 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 that we can be proud to own!

The Bad – Merck – Abortion, Human Rights and Homosexuality Issues

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

Merck is one of the largest pharmaceutical companies in the world. Last year its sales amounted to $48 billion with a little over 40% of that coming from the US. Its 84,000 employees are spread around the globe and the company's drugs have a life-saving impact for many. While many drug companies have faced slow growth as their leading drugs have come off patent, Merck has been able to continue to grow at attractive rates, particularly via an increased presence in the emerging markets. The company's principal drugs are in the heart, respiratory health, infectious diseases, sun care and women's health categories. The company spent $7.7 billion on research and development in 2011, with a focus on diseases like cancer, diabetes and Alzheimer's.

While acknowledging the good Merck does for society, we are also convicted by some of its activities that are disturbing to those pursing a Biblically Responsible Investment (BRI) approach. Unfortunately, part of Merck's women's health business encompasses abortion related drugs and products. This fact alone disqualifies Merck from our consideration. Additionally, Merck uses embryonic stem cells from aborted children in its research and has also helped fund a conference dedicated to stem cell research. Furthermore, Merck has small operations in Iran, a country recognized for its religious oppression of non-Muslims, hatred of Jews/Israel and willful lying to the international community about the extent and intent of its nuclear program. Merck has also been supportive of homosexuality via a variety of company sponsored efforts including employee groups, diversity training and significant corporate sponsorships for homosexual groups. While as Christians we love homosexuals, we are concerned when companies use shareholder resources to promote what the Bible clearly labels as sin.

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

STEWARDSHIP PARTNERS

MINISTRY COMMENTARY

Our Ultimate Goal - Funding the Lord's Work

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

It is our hope that Stewardship Partners' ability to create an abundance for you will help you to share with those who are in need and assist in fulfilling the Great Commission. Our non-profit ministry affiliate, Wall Watchers, provides a free service to help you educate yourself about the many wonderful Christian giving opportunities available to wise donors. We invite you to join the thousands of visitors to our ministry's website at www.MinistryWatch.com, the Internet's top site for donors to Christian ministries. 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 be able to help you bless God's people who are in need. Please be sure to check out MinistryWatch.com's 2011 list of our thirty Shining Light Ministry Award winners as well as our companion list of thirty ministries that are subject to a Donor Alert from MinistryWatch.com.

Featured Ministry – Care Net – Saving Children's Lives

"Whoever welcomes one of these little children in my name welcomes me" Mark 9:37a (NIV)

Care Net is the leading Christian ministry working to save the men, women and unborn children involved in a crisis pregnancy from the horror of abortion. Via its more than 1,100 pregnancy centers across the country, Care Net offers those faced with an unplanned pregnancy a Christian alternative to Planned Parenthood and abortion. Often staffed with compassionate volunteers, these centers provide both emotional support and practical assistance to those in need. Free pregnancy tests, ultrasounds, abortion information, parenting classes, and material assistance are just some of the many services offered that empower women to choose life. The ultimate aim of Care Net and its network of pregnancy centers is to share the love and truth of Jesus Christ in both word and deed. Care Net pregnancy centers also seek to bring healing and forgiveness to those who have already experienced abortion.

Abortions in inner cities are at epidemic proportions. In many cities, abortions outnumber live births. Sadly, Hispanic and black women make up only 27% of the total female population, but account for 59% of abortions. Recognizing that over 94% of the nation's abortion providers are located in metropolitan areas, many of which are predominantly minority populated, Care Net is strategically planting new pregnancy centers in these urban communities in order to provide needed abortion alternatives and pregnancy support services. Care Net is also developing a college campus initiative that aims to reach these underserved areas. Efforts to collaborate with other nationally recognized ministries, as well as with local ministries, are underway.

Care Net is a very strategic ministry which is literally saving the lives of unborn children every day. With greater resources, there is no question it could save even more lives. Additionally, the ministry effectively utilizes the financial resources donors entrust to it as reflected by the Three Star Financial Efficiency Rating earned from MinistryWatch.com. Care Net is also a 2011 MinistryWatch.com Shining Light Award winner and is worthy of consideration for your financial support.

The Christian Ministry Marketplace – Helping Donors Give Wisely

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

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

The Christian Ministry Marketplace
Resources for Christian Donors

WHY
to give to Christian ministries?

Teaching on Stewardship:

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

HOW
to give with a discerning mind?

Professional Advisors:

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

Donor Advisors:

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

WHERE
to invest in kingdom ministries?

Ministry Research:

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

Ministry Mutual Funds:

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

Online Donation Services:

- Network For Good (networkforgood.com)

Featured Ministry Marketplace Participant – Generous Giving

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

Founded in 2000 by The Maclellan Foundation, Generous Giving's mission is to spread the biblical message of generosity in order to grow generous givers among those entrusted with much. It was launched with a vision to stir a renewed, spirit-led commitment to generosity among followers of Christ. Generous Giving holds a variety of events and conferences that provide safe, solicitation-free environments for those attending. Generous Giving never seeks donations to accomplish its mission, does not permit solicitation by other organizations at their events or award grants to any other organization. The board of Generous Giving provides for the financial needs of the organization. Generous Giving focuses on building the faith of givers themselves rather than raising funds. Additionally, they specifically emphasize giving and generosity rather than budgeting, saving, investing, debt reduction and other aspects of stewardship covered well by other Christian ministries. Generous Giving is an evangelical Christian ministry that is not affiliated with any Christian denomination.

Generous Giving's biggest event is its annual Celebration of Generosity Conference. Typically held at a high-end resort, the conference includes several nationally known Christian speakers. It also features the personal testimonies of several wealthy Christians who discuss what and how the Lord has taught them about giving through their own successes and failures. The objective is the help attendees grow in faith as they learn from peers who have and are facing similar challenges as they grow in the grace of giving. Journey of Generosity retreats are 24-hour gatherings hosted by an individual, couple or organization. A trained facilitator, provided by Generous Giving free of charge, leads a small group in a deeper exploration of the life changing message of generosity. The intimate setting encourages discussion around stories and scripture. Generosity One-Day events are 8-hour experiences that take givers through a series of live stories, teaching and videos that encourage meaningful discussion and challenge participants to take the next step in their generosity journey. These are hosted throughout the year in various locations, often in local churches.

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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