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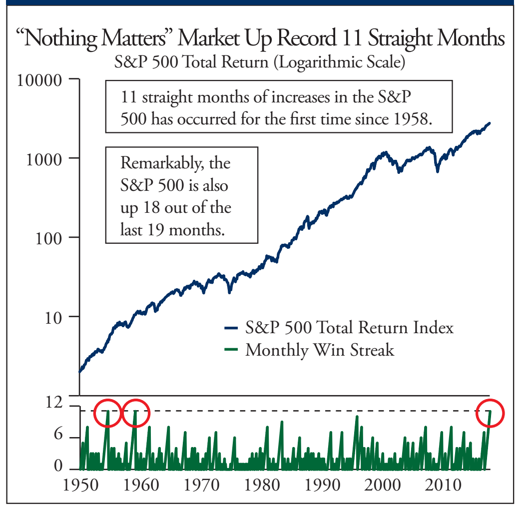
Authored by Howard J. "Rusty" Leonard, CFA
CEO and Chief Investment Officer, Stewardship Partners Investment Counsel, Inc.

The "Nothing Matters" Market Streaks Higher

"Is it nothing to you, all you who pass by? Look around and see." Lamentations 1:12

In our last Stewardship Partners Quarterly Commentary, we laid out what we thought was an unusually convincing case the financial markets were overdue for a normal setback. We pointed out the bull market was already one of the longest ever, valuations were quite high, market leadership was narrowing and signs of speculative activity, which often mark the end of a bull market, were rising. In the end, none of this mattered as the market continuously and gradually moved higher to new records (Table 1). The failure to implement key elements of President Trump's economic agenda, rising concern about nuclear war with North Korea, the Fed embarking on Quantitative Squeezing (selling the bonds it previously purchased to support the financial markets) and a general unease among the citizens of the country were all issues that never mattered as equities just continued to streak higher during the third quarter. As pointed out by Ryan Detrick of LPL Securities, the S&P 500 has risen in all 11 months since President Trump won the election, a streak that has only happened twice before, both times in the 1950's (Chart 1). It has also risen in 18 of the last 19 months, another rare string of good fortune. Additionally, the S&P 500 has now risen for eight straight quarters for just the fifth time in history. Moreover, the Volatility Index (VIX) had a streak of closing below the 10 level, indicating very minimal volatility in the market, for seven straight days, only the second time this has ever happened. During the ordinarily volatile third quarter, the VIX averaged 10.9, its lowest level ever. The market's slow and steady grind higher during the normally seasonally weak third quarter was simultaneously remarkable and unsettling.

Chart 1



Source: Bloomberg

Table 1

3Q17 Total Returns

US Indices	3Q17	YTD	5y Ann
S&P 500	4.5%	14.2%	14.2%
S&P 500 Value	3.5%	8.5%	13.2%
S&P 500 Growth	5.3%	19.3%	15.0%
NASDAQ	6.1%	21.7%	17.3%
S&P 400 (Mid Cap)	3.2%	9.4%	14.4%
S&P 600 (Small Cap)	6.0%	8.9%	15.6%
Treasury Bonds	0.4%	2.3%	1.2%
High Grade Corp. Bonds	1.3%	5.2%	3.5%
High Yield Corp. Bonds	2.0%	7.0%	6.4%
Gold	3.1%	11.1%	-6.3%
Global & International Indices			
MSCI World	4.8%	16.0%	11.0%
MSCI EAFE	5.4%	20.0%	8.4%
MSCI Euro	8.0%	25.9%	9.9%
MSCI Far East	4.1%	16.2%	10.0%
MSCI China	4.0%	14.3%	10.6%
MSCI Japan	14.7%	43.2%	11.0%
MSCI Emerging Markets	7.9%	27.8%	4.0%
US Economic Sectors			
Energy	6.8%	-6.6%	1.0%
Materials	6.0%	15.8%	11.3%
Industrials	4.2%	14.1%	16.2%
Consumer Discretionary	0.8%	11.9%	15.9%
Consumer Staples	-1.3%	6.6%	11.5%
Health Care	3.7%	20.3%	17.3%
Financials	5.2%	12.5%	17.6%
Information Technology	8.6%	27.4%	17.4%
Telecom	6.8%	-4.7%	5.6%
Utilities	2.9%	11.9%	11.9%

Source: Bloomberg

The "Nothing Matters" market has left many investing veterans stunned by the absence of even small random declines in share prices. Thus far in 2017, the largest drop in the S&P 500 at any point in the year has been just 2.8%. This is simply not typical market behavior. "Mr. Market" normally has a manic/depressive personality with rapid mood swings and is prone to overreactions in both directions. For quite some time now, however, "Mr. Market" seems to have become addicted to Prozac as share prices now move in an unusually narrow range. Recently, the market had a string of 17 consecutive closes within half of one percent of the previous day's close, the longest such streak since 1969. Moreover, it is hard to determine the reason for such extraordinarily calm market behavior. Clearly, slow and steady global economic growth, as well as rising corporate earnings, are the strongest explanation but markets have been very volatile in the past under similar conditions. One cannot help but think the longer such an odd trend continues, the more the spring is getting coiled for an eventual painful breakout of much greater volatility. We seem so overdue for a pullback in share prices that we would not be surprised if share prices began to fall before too much longer for no apparent reason at all. It is just not normal for the market to never react to any of the many disconcerting developments that happen with some regularity in life. Because there is little evidence yet of an impending recession and because many investors are holding cash to take advantage of the long overdue sell-off, any such future fall in share prices could be limited. At the same time, the "Nothing Matters" market could also continue for longer than we think is possible or reasonable.

Due to our cautious portfolio positioning during the third quarter, as well as having the misfortune several of our holdings performing poorly, most Stewardship Partners' third quarter returns trailed the indices. Our Quantitative portfolios, however, performed well. We are hopeful we can return to the strong performance we achieved in the first half of 2017 during the fourth quarter. Many of our holdings which performed poorly appear primed to recover as there was little reason for the declines to begin with.

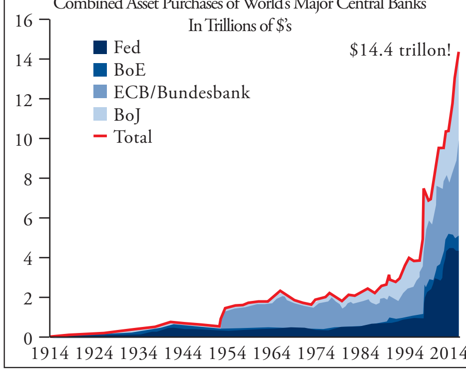
The Markets May be Risky but the Global Economy is Strengthening

"The righteous will hold to their ways, and those with clean hands will grow stronger." Job 17:9

These are the times that try investment managers' souls. On a wide variety of measures, the markets are priced for perfection and it is hard to find investors who are not optimistic about the future. These historically extreme, and therefore risky, conditions have led us to approach the markets cautiously during 2017. We have featured many graphs of effusive investor sentiment, the unusual length of the current bull market, debt levels rising to worrisome levels and ultra-high valuations in our past Quarterly Commentaries and we will highlight additional such charts in this version as well. Typically, the economic backdrop for these disconcerting market statistics in recent years was also a shaky, slow growth, central bank-manipulated global economy where it was not too hard to envision how easy it would be for global economic growth to quickly unravel. Had that happened, investors would have been punished severely. While the risk of such an unfortunate outcome was real, it has thus far been avoided. Perhaps because so many risks have been successfully dodged in recent years, investors have become overconfident to the point of ignoring potential risks altogether. Clearly, given the near absence of market volatility in 2017, this overconfidence has grown as each month has ticked by. Perhaps it has been just good luck which has allowed the various threats to the global economy in recent years to amount to nothing, but more likely the source of the market's unusual calm in the face of meaningful threats has been the huge intervention in the financial markets by the world's central banks (Chart 2). Even while the US has actually just begun to reverse its immense Quantitative Easing (QE) program, the Japanese and European central banks have more than taken up the slack, thereby unnaturally boosting financial markets around the world.

Chart 2

Central Bank Huge Buying
Promotes a "Nothing Matters" Market
Combined Asset Purchases of World's Major Central Banks
In Trillions of $'s



Source: Bloomberg

Chart 3

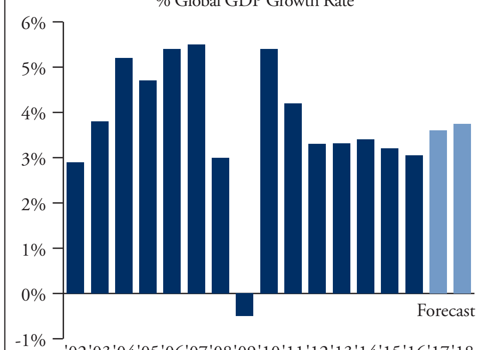
Accelerating Manufacturing Boosting Global Growth
Global Manufacturing PMI and World GDP Growth

Source: Capital Economics

But now, just as investors have been perfectly set up for a fall by the world's central banks, it appears the global economy is actually beginning to move to a place of higher and hopefully self-sustaining growth. Given the current economic recovery is already one of the longest on record, this is a surprising development. Granted, it is still early in this trend's development but the improvement is nevertheless undeniable. Chart 3 highlights the clear rising trend in the global manufacturing index which global economic growth almost always tracks closely. Manufacturing has improved for a record 15 straight months in the US, China and Europe and currently each of the nine largest economies are recording growth in new orders in manufacturing. As a result, the OECD is forecasting rising global economic growth in 2017 and 2018, the first positive trend since 2007 (Chart 4). There also do not appear to be any serious threats to this renewed expansion in the short term. Monetary policy in the US has turned ever so slightly tighter but outside our country, monetary policy remains very easy. This should be sufficient to continue to promote global economic growth for the foreseeable future. Fiscal policy in the US is actually getting easier as the Federal budget deficit is expanding somewhat currently and may balloon if Trump's tax reform plans become reality. While there are always threats which could undermine this recovery, none seem as severe now as in the past.

Chart 4

Global Economic Growth Finally Accelerating
OECD Forecasts Stronger Global Economic Growth in 2017 and 2018
% Global GDP Growth Rate



Source: Bloomberg

Chart 5

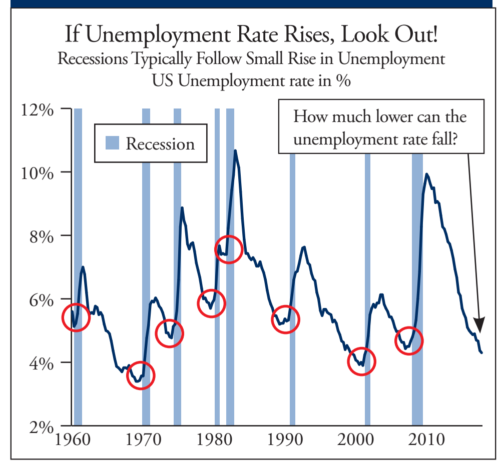
Confidence Growing that China Will Avoid a Melt Down
China's Foreign Exchange Reserves are Growing Again
China's Foreign Reserve in $ Billions

Source: People's Bank of China, CEIC

China's debt-fueled economy has long been the biggest threat to global economic growth and it remains so. Financial regulation in China is far from ideal allowing an unknown degree of unwise uses of massive amounts of debt. While this remains the case and should not be ignored, the Chinese economy has clearly taken a turn for the positive which could at least delay any serious consequences from its past debt-fueled economic folly. Government regulators have sought to curb the most egregious abuses of debt in China but this did not prevent S&P from downgrading the country's debt recently. Still, in one of the most positive developments we can point to, China's foreign reserves are once again expanding indicating Chinese wealth is no longer anxious to flee the country due to concerns of a possible economic collapse (Chart 5).

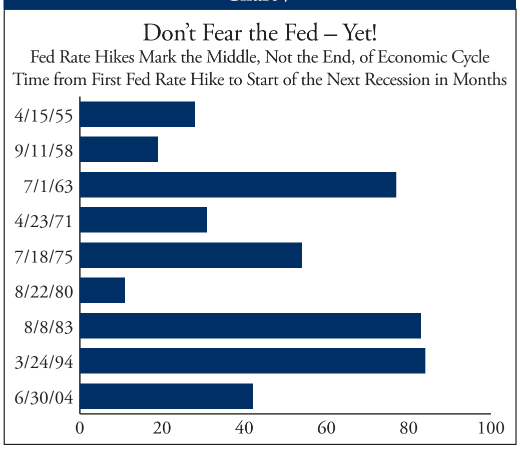
While the renewed trend toward stronger economic growth is clearly welcome, it is not without consequences. After a very long economic expansion, economic resources in the US are pretty fully utilized already. If the pace of economic growth quickens at this point, inflation may not be far behind. And if inflation raises its ugly head, the Fed will go from mildly tightening to aggressively tightening which we have to believe would break investors of their overconfidence problem very rapidly. Thus far inflation has not been an issue as it has remained subdued throughout the long economic recovery. Indeed the Fed has been criticized for moving to a slight tightening stance too soon since inflation has yet to rise convincingly above the Fed's target of roughly 2%. Still, there are some signs inflation could return before too long, notably increasing inflation trends in China which could eventually spill over to the rest of the world. Should inflation return and cause the Fed to tighten monetary policy more quickly than the markets are forecasting, that could trigger a rise in unemployment. As shown in Chart 6, a small increase in the unemployment rate has always preceded a recession. While a recession does not appear imminent at this time, we will certainly be paying close attention to the unemployment rate, among other leading indicators of recessions, in the months ahead as there is no guarantee the current positive economic growth trends will not be undermined in a surprising fashion.

Chart 6



Source: BLS, Haver Analytics

Chart 7



Source: LPL Research

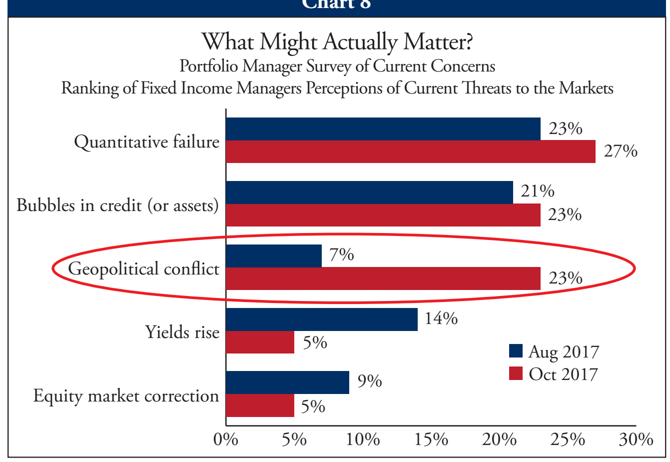
Even though the current economic recovery in the US will soon be nine years old, the Fed only started to tighten policy in December 2015, but in a very limited fashion. More recently, however, the pace of tightening is picking up. Historically, the Fed's first rate hike comes in the middle of an economic recovery (Chart 7). If that turns out to be the case this time, there is another seven years of economic growth in front of us! While that seems highly unlikely given growth is picking up at a time when the employment market is already highly utilized, we do feel reasonably confident a recession can be avoided in the short term. And if there is no recession, corporate earnings should continue to rise, thereby providing meaningful support for already lofty share prices. Even so, investors can never rest too easily when valuations remain so high and investor sentiment is already very complacent as any unexpected development, or even nothing at all, could lead to a long overdue bout of profit-taking.

Weather, War and Tax Reform – Threats That Could Matter

"Destructive forces are at work in the city; threats and lies never leave its streets." Psalm 55:11

Catastrophic weather, or any natural disaster, certainly falls into the category of an unexpected development. While we know there will be such events every year, the severity and location are largely unknowable. Years can go by when natural disasters have little lasting economic or market impact. In fact, that is the norm. Indeed, the economic costs of natural disasters are often offset by the benefits that come from rebuilding and replacing what was lost. Still, there are some short term impacts which cannot be avoided. The recent hurricanes in Texas, Florida and Puerto Rico unleashed an unusually large amount of damage and significantly disrupted the economy in those areas. It is estimated more than 10% of the US population was affected in a meaningful way by these recent hurricanes. Lost wages, uninsured assets that were destroyed and inability to repay debts will be just some of the short term effects of Harvey, Irma, Maria and Nate. As a result, over the next few months, economic statistics may not give a clear reading of the actual state of the economy. Still, we do not believe the impact of the storms, which has admittedly been greater than normal, will be sufficient to trigger a recession or have more than a transitory impact on corporate earnings in general (although some companies particularly exposed, such as insurers, will suffer significant earnings declines).

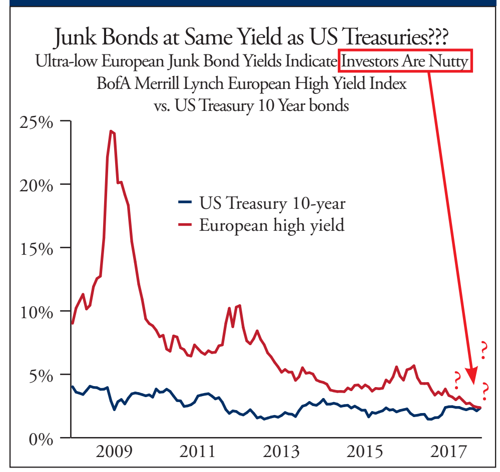
Chart 8



Source: BofA Merrill Lynch Global Research

Hurricane damage may cause only temporary economic aberrations but investors face a number of other threats which could easily prove to be more consequential and lasting. Bank of America regularly surveys fixed income portfolio managers to determine their most pressing concerns (Chart 8). In their most recent survey three issues made them the most fearful. First was the possibility of "Quantitative Failure" or that the Fed would make a mess of monetary policy as it sought to extricate itself from the trillions of dollars of assets it acquired during its massive, multi-year QE policy. In our view, this fear is overstated by the portfolio managers since the Fed is currently moving so slowly in selling off its assets. Should the Fed change course and accelerate its bond sales, however, those fears could become reality. This does not appear to be imminent so we do not see the same level of threat as the fixed income managers in this survey.

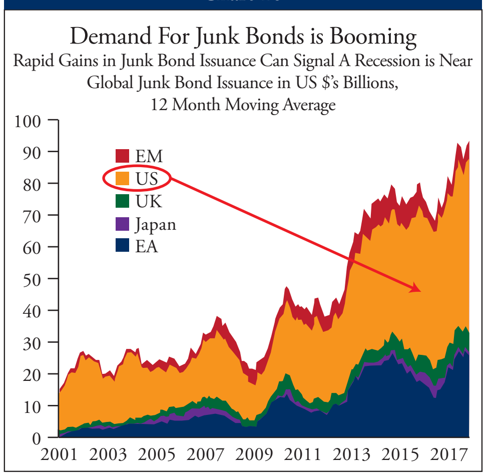
Chart 9



Source: BofA Merrill Lynch

A greater issue to us is the risk seen in the credit bubble the fixed income managers identified. Of particular concern is the risks posed by the high yield debt markets around the world as evidence of the mispricing of these securities is abundant. While we could produce numerous charts highlighting this, we have chosen Chart 9 to best describe the situation. It reveals risky high yield European debt now offers the same yield as the least risky debt available, US Treasury 10 year bonds. That is clearly very, very stupid and many investors could be hurt when the relationship between these two types of bonds returns to normal. Should a recession break out as well, then the carnage could be truly savage. Unfortunately, investors desperate for income in a world yields on many government bonds are negative, have chased the higher yields offered by these junk bonds and have placed themselves at great risk. Chart 10 shows just how fast the market for the riskiest of these high yield bonds, has grown in recent years, particularly in the US. It is hard to see something good coming out of this rapid expansion in the riskiest type of debt. Since a recession, which leads to rising defaults in this type of bond, does not appear imminent the consequences of this rapid growth and mispricing of junk bonds may not be felt immediately. Still, this is perhaps the most dangerous financial market in the world at the moment and it is only a matter of time before junk bonds "pay the piper". The biggest risk for the financial markets more generally from junk bonds would be if problems in this market began to overflow into the investment grade and equity markets as well. This does not seem likely anytime soon but we will remain alert to this risk as time passes.

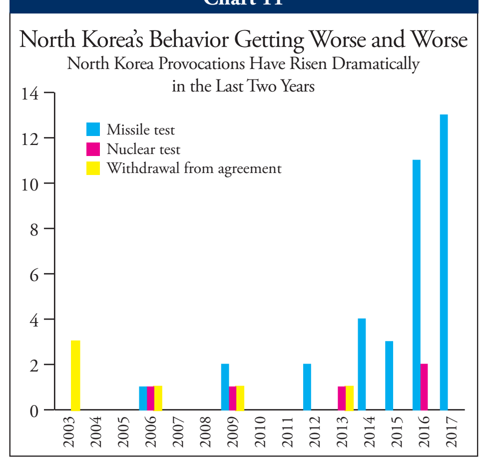
Chart 10



Source: IIF, Thomson One

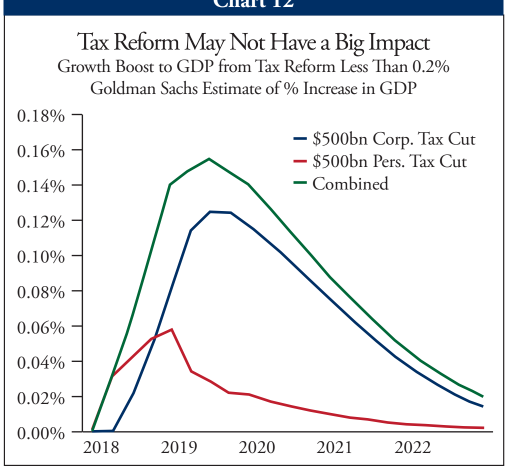
The third concern highlighted by the fixed income managers is the growing risk of war with North Korea. Chart 11 highlights the growing number of incidents over time with North Korea. Each new missile test increases the threat against the US and its allies as North Korea is now making much more rapid progress than earlier anticipated towards its goal of arming an intercontinental ballistic missile (ICBM) with a nuclear payload. In the past, investors could afford to comfortably ignore the increasingly militaristic rhetoric used by both sides as it was fairly obvious the risk was actually quite small. Now, however, the risk of warfare is no longer quite as small. The actual threat is larger now that the North Korean capabilities have advanced so far and President Trump may also be more inclined to use force than his predecessors. The threat extends to the possibility of North Korea sharing its technology with Iran and/or terrorists who might be more inclined to actually use it against us or our allies, thus increasing the odds of a preemptive move by the US. A US attack could come quite suddenly or may first be preceded with escalating rhetoric which could disturb the markets. Nevertheless, a US attack, while becoming more likely, remains a low probability as the consequences to South Korea are very ugly. The economic consequences of an attack are likely being overestimated by the markets as North Korea's economy is one-third the size of Ethiopia's. Any negative market reaction to a perceived or actual attack would likely prove temporary.

Chart 11



Source: Nomura Global Economics

Chart 12



Source: Goldman Sachs Global Investment Research

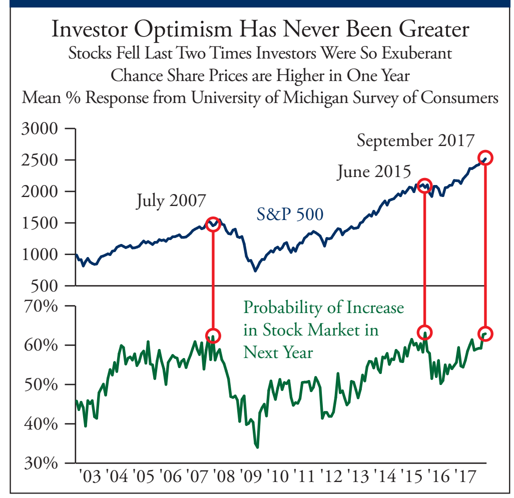
While the market may be overly concerned about North Korea, it is clearly overly optimistic about both the prospects for and impact of President Trump's proposed tax reform. As shown in the Obamacare repeal debacle, even 52 Republican senators are not enough to guarantee the President's agenda can be implemented. There are some unique personalities in the Senate and more than few senators seem not to be team players. As a result, Goldman Sachs believes there is only a 65% chance a tax reform bill actually makes it through both houses of Congress and lands on the President's desk in early 2018. Surely, if tax reform fails, the market's likely negative reaction will indicate it actually does matter. With the Republicans desperately needing a legislative "win" before the 2018 elections, conventional wisdom suggests a tax reform bill has to be passed into law. Even if it does, however, the impact may be less than the market currently seems to be anticipating. Goldman Sachs estimates the current proposed bill would add less than 0.2% to GDP growth in 2019 (Chart 12). As this becomes more apparent, the market could give up some of its recent gains that have clearly been driven by optimism regarding tax reform.

A "Nothing Matters" Market Indicates Shares are Priced for Perfection

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

Economic growth and corporate profitability are reaccelerating but just about every measure of the market's health is currently screaming at investors to be cautious. Many, many data points we regularly examine are at record or extreme levels. Despite the good economic and earnings backdrop, we cannot see how the market can avoid some degree of profit-taking in the short term. One trustworthy reading of excessive exuberance in the financial markets is investor sentiment. Currently, a record 62% of investors believe share prices will be higher one year from today, with a near record 10% of respondents saying they are 100% certain this will be true (Chart 13). As seen in the chart, on the only two other occasions when sentiment rose this high, a market decline followed shortly thereafter. The fundamentals may be stronger at this point than in the following two times this occurred, but a drop in share prices to correct the very high level of investor expectations seems inevitable.

Chart 13



Source: The Lyons Share and University of Michigan

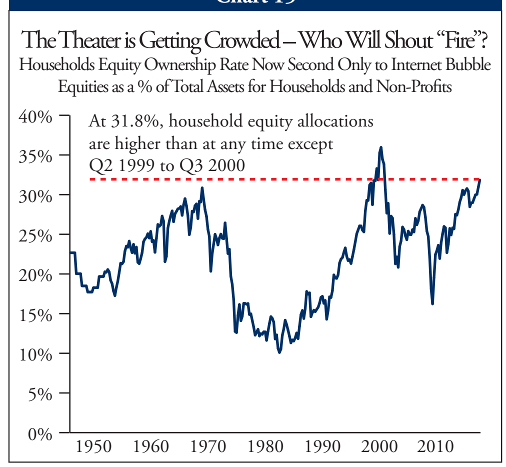
Another example of the current high degree of complacency among investors is the record low level of the Volatility Index (VIX) as shown in Chart 14. During the month of September, VIX recorded its lowest average level ever and was less than half the long term average for this typically volatile month. VIX also hit its all time closing low level in early October. Speculators are so convinced VIX will remain depressed that short positions on VIX are at a very extreme level as well, more than three standard deviations away from the long term average. When the average investor is this fearless, it almost always is a good time for wiser investors to be more fearful.

Chart 14

Source: Bloomberg

Given this widespread lack of investor fear about the future path of share prices, it will come as no surprise the percentage of equities in the average household's portfolio is at a near record level at 31.8% (Chart 15). Only during the Internet Bubble was the percentage exposure to equities higher over the last 70 years. When the proverbial fire alarm goes off, it will not be easy for the average investor to evacuate the investment "theater" as heightened expectations of future investment gains come crashing down. While we are not certain what might cause the fire alarm to go off, we are at a point where it would not take much, and may not even take anything other than a week or two of falling share prices, to set off a temporary flight from stocks.

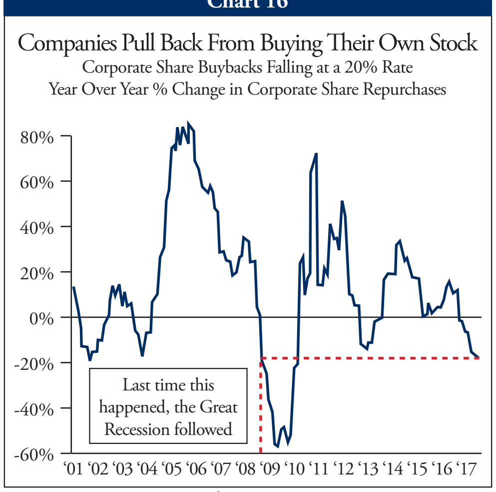
Chart 15



Source: FRED

One group of knowledgeable buyers who helped push share prices higher in recent years has already been slowing their purchases of equities. As indicated in Chart 16, corporate buybacks of shares have been falling at a 20% rate in 2017 as CEO's and corporate board members likely realize buying their own company's shares at such high valuation levels makes little sense, even if the outlook for corporate earnings and lower corporate taxes still looks good. The outlook for corporate earnings looks attractive but there is a reasonable price for everything and equities seem to already exceed that price by a meaningful amount.

Chart 16



Source: SG Cross Asset Research, Factset

Of course, just like at the beginning of the third quarter when many of the same concerns were present, there is no guarantee share prices will respond as we believe they should. Indeed, when the third quarter started, seasonal factors suggested share prices would falter. Now, just the opposite is true as equities often rally strongly from mid-way through October through the end of the year (Chart 17). So if share prices are to weaken in the fourth quarter, this will happen in the face of very strong seasonal tendencies. For now, however, we believe the wisest course of action is to remain cautiously positioned given the abundance of data suggesting investors are very overconfident.

Chart 17

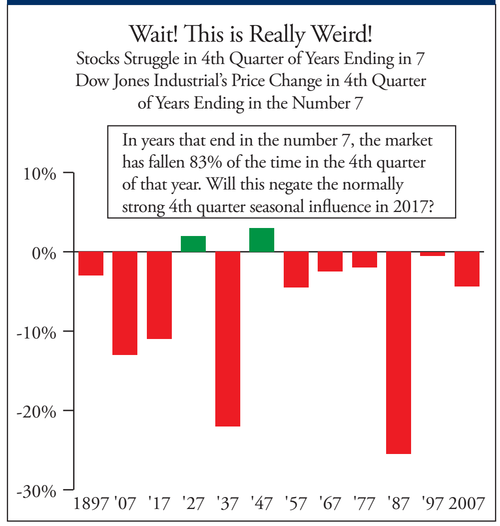
Source: Topdown Research, Datastream

Market Indicators at Extreme Levels Do Matter, Caution is Warranted

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

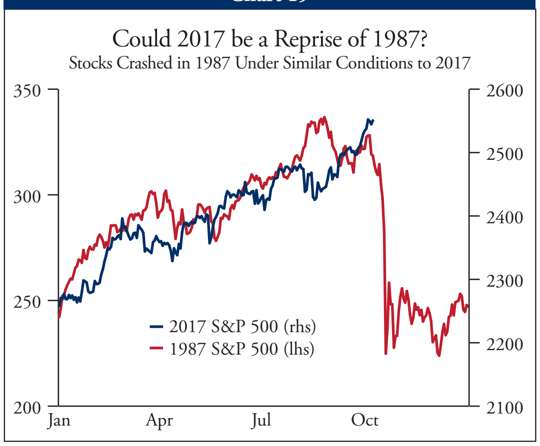
While it is nothing more than a weird anomaly, Chart 18 portrays the very odd, if puzzlingly consistent, behavior of the market in fourth quarter in years ending in the number 7. In the admittedly statistically insignificant twelve times that a year ending in 7 has occurred since 1897, stocks have fallen in the fourth quarter ten times. Could this offset the normal strong fourth quarter positive seasonal effect? In the two years when positive returns were earned, those advances were minimal. Moreover, if you breakdown every year, not just those ending in 7's, into first and second halves, the second half of years ending in 7 have the worst average drawdowns, averaging almost a -21% decline, of all the 20 half year periods measured. Twelve of the 20 worst single daily losses the market has ever experienced since the late 1800's have also occurred in the fourth quarter. While we place almost no credence in such analysis, we found it too interesting not to at least take note of it.

Chart 18



Source: Bloomberg

Chart 19

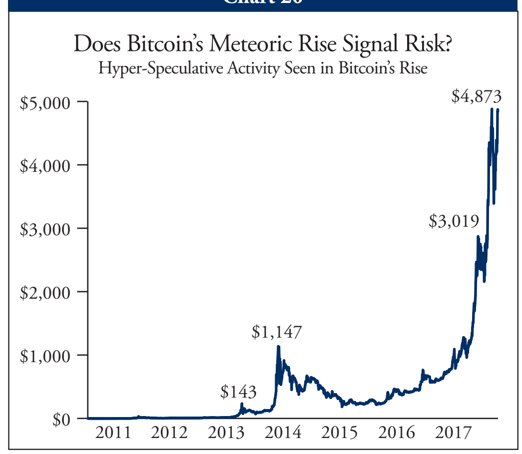


Source: Bloomberg

Another peculiarity which we think worth noting is a comparison between 1987 and 2017 (Chart 19). In the 1987 market crash, valuations were high, the Fed had recently begun tightening and institutions owned a large amount of hedges, known at the time as "portfolio insurance". Sound familiar? Today, valuations are high, the Fed has begun ramping up its tightening efforts and hedge funds and others are heavily invested in derivative securities which might trigger a downturn if many sought to exit these at the same time. Since we personally lived through October 19, 1987 when the S&P 500 fell by more than 22%, we can attest nothing actually happened to trigger the huge wave of selling. There was no negative news event that fateful day to cause investors to scurry for the exits. It just happened. The worst day in market history happened with no obvious trigger. It is unlikely a sell-off quite this severe would occur again, but an unexpected fall at least one-fourth as severe would not surprise us at all.

Highly speculative investor behavior has been more obvious in the fixed income markets than in the equity markets so far in 2017. In addition to the extremely low yield on risky junk bonds we noted earlier, we have also seen investor protections, known as covenants, in high yield bonds continue to diminish to the point where those safeguards are at record low levels. Recently, investors hungrily bought new bond issues from risky countries like Iraq and Ukraine at lower than expected interest rates. One area of hyper-speculation has been in the emerging crypto currency markets. The leading crypto currency, Bitcoin, skyrocketed to seemingly ridiculous levels in recent months, as speculative fervor overtook this thin and undeveloped market (Chart 20). While highly speculative activity has not been an overt feature in the world's equity markets, over-the-top risk-taking in the bond and crypto currency markets should still alert wise investors to position their portfolios in a more cautious manner as all markets impact each other in a panic.

Chart 20



Source: Bloomberg

Chart 21

Source: ICI, BofA, Rydex, Federal Reserve, SENTIMENTRADER

Highly speculative trading is a time-tested sign of an impending reversal in the financial markets. Another is the strong tendency for the mass of investors to always be in the wrong place at the wrong time, particularly at extremes. Chart 21 reveals this tendency all too painfully. Investors typically are most cautiously positioned with the most cash on the sidelines at market lows and end up holding the least cash at market highs. At the moment, cash being held as a cushion against future losses has hit a record low giving wise investors yet another reason to strongly consider taking a contrarian investment attitude at this time.

Improving economic growth, reacceleration in corporate earnings and bullish seasonal tendencies are all good reasons to throw caution to the wind and join most investors in getting fully invested in what has become known as the most hated bull market of all time. As we saw in the third quarter, those who did so were rewarded with good returns. With so many market indicators at extreme or record levels suggesting caution, however, we believe it best to remain cautious. Moreover, we believe we own several uniquely well-positioned stocks which could help us outperform even while we remain in a guarded position. As a result, we are hopeful for a strong finish to 2017.

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, VMware, and one we avoid, MGM Resorts. VMware is a holding in some of our Stewardship Partners portfolios while we actively avoid ownership in MGM Resorts 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 – VMware – Christian CEO and Exemplary Corporate Citizen

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

VMware was founded in 1998 in Silicon Valley and provides what it calls "virtualization solutions from the desktop to the data center" for corporate customers around the world. In 2004, the company was acquired by EMC Corp, which a few years later spun off a portion of its VMware division to the public. In 2016, EMC was acquired by Dell Computer and Dell then became VMware's corporate parent and controlling shareholder holding nearly 83% of the company's stock. Nevertheless, it still effectively operates as a nearly independent company from Dell. VMware is a leader in virtualization and cloud infrastructure solutions that enable businesses to transform the way they build, deliver and consume information technology (IT) resources in a manner that is based on their specific needs. VMware creates and markets software its clients use to manage the wide variety of computer functions utilized in their operations and is a leader in helping companies adapt their information to the emergence of cloud technology. Their software primarily helps companies lower the cost of operating their information technology systems and more efficiently integrate storage, server and networking functions. More than half the company's revenues, however, come from its services portion of its business where it offers an extensive range of consulting, technical support, training and certification services. The company has partnered with over 4,300 service providers around the world to market its services. VMware also has marketing partnerships with many top end computer hardware companies including IBM, Cisco, Hewlett Packard Enterprises and, of course, it parent Dell Computer. Roughly 60% of its 2016 revenues of $7.1 billion came from services with the remaining 40% sourced from software licensing. As might be expected, VMware has a global reach with about half of its revenues coming from inside the United States and the other half generated overseas. The company employs nearly 20,000 staff members who operate out of 116 offices around the globe. As you might imagine given the company's focus on helping customers integrate the latest developments in computing on their far flung networks, VMware spent $1.5 billion on research and development expenses in 2016, which amounted to 21% of their total revenues.

VMware's business, while impressive and attractive to investors like ourselves, was not the only reason we were interested in making it a holding in our clients' portfolios. The company's values and leadership also provide good reasons for Stewardship Partners to own this particular stock. VMware describes its values using the moniker EPIC2. The company maintains that its EPIC2 values "reflect who we are and why we are here, to disrupt information technology while shaping the course of what's next for our community". Its first EPIC2 value is: "We work together". Through teamwork, the company seeks to continuously make things better for their customers, its community and its employees. The second value is: "We practice integrity to build trust". VMware employees are encouraged to build solid, long-term relationships with their customers, partners, community and each other by always following through on their commitments. The third EPIC2 value is: "We put our customers at the center of everything we do". Recognizing that when their customer succeeds, VMware succeeds, the company aims to create technologies that empower their clients to meet their toughest business and technological challenges. The company's final EPIC2 value is one that we particularly appreciate: "We give to our community". VMware understands if its surrounding community is suffering, so is the company and its employees, so it seeks to help others in need in its community so all will be blessed. If some of these values seem to have a Christian basis, it may have something to do with the fact the CEO of VMware is a devout evangelical Christian. Recently, we had the opportunity to listen to a presentation he made describing how his Christian walk influenced his life as a CEO of a major company and it was very impressive. It is rare today to have a corporate executive be so willing to share his faith with the public, particularly one operating in Silicon Valley.

VMware, more than most companies given its heavy reliance on providing services to other companies and the importance of research and development in its operations, is a business which is heavily reliant on its employees if it hopes to continue to be successful. In view of both that and its culture, it will come as no surprise the company provides for its employees in a very impressive fashion. VMware's benefit package is quite extensive and the company does its best to help its employees understand and fully utilize the many benefits it offers via online tutorials and social media updates and education. The company provides medical, dental and vision insurance coverage and offers both health savings accounts and flexible spending accounts. In order to encourage employees to remain physically fit, the company offers to reimburse employee expenses incurred by those employees who are not at a company office which does not already have a fitness facility in it. The company is also focused on helping its employees manage their life/work balance. Accordingly, it offers access to legal aid for those who might need such assistance. VMware also has a plan in place to provide emergency back-up daycare for a child or other dependent when the primary caregiver is unable to show up. The company's Emergency Assistance Program (EAP) provides a variety of services to help employees be at their best both physically and emotionally. At no charge to employees and available 24/7, EAP confidentially assists workers facing marital or other relationship issues, drug or alcohol dependency, financial stress or who need help locating child care, summer camps or colleges for their children, among many other forms of assistance. Parents of children with disabilities or behavioral issues are given access to a wide array of resources aimed at helping their children reach their full potential. Ever been frustrated and exhausted by the complexity of your healthcare? VMware will provide employees with a personal healthcare navigator to help workers maneuver through their healthcare options more effectively. VMware also provides up to $10,000 in financial assistance for those parents seeking to adopt a child. The company also provides for a wide variety of situations where an employee needs to take a leave of absence, including serving in the military. VMware will pay the difference between an employee's military compensation and his normal salary at VMware for a period of 548 days and will preserve their job until their military service is completed. Additionally, the company provides life insurance for up to five times an employee salary and offers life insurance for spouses and dependents as well. A generous 401(k) program with a 6% company match is available as well as the opportunity to buy the company's stock at discounted prices. The company also brings in a wide variety of speakers from the intellectual and entertainment world and organizes various fun family events including concerts with well-known musicians. Not surprisingly, the company has won many awards including "Best Company to Work For" awards from both Fortune and Computerworld magazines.

VMware is a unique company in so many ways and its focus on philanthropy is just one of the ways the company distinguishes itself. The theme the company has adopted is for its giving and sustainability efforts are "what can we leave ahead?" They also instill the idea of citizen philanthropy where employees get directly involved in selecting the charities the foundation assists. On the giving side of this equation, the company, through the VMware Foundation, gave charitable gifts totaling $4.6 million to 7,411 non-profits in over 100 countries. Fully 85% of the company's employees were involved in its charitable work in one way or another and they gave over 66,000 hours of volunteer work to charitable projects. The foundation also made $3.2 million in grants to university research projects. In terms of its sustainability efforts, the company managed to save its customers 76 million metric tons of CO_2 which is equivalent to powering 11 million homes for a year. While maintaining a rapid financial growth rate in 2016, the company was able to simultaneously reduce its own emissions by 15%, easily surpassing its 10% goal. Additionally, the company now sources 72% of its own energy requirements from renewable energy.

VMware's good works, while numerous, are of course, no guarantee of long-term investment success. As Biblically Responsible Investors, however, the company's Christian leadership, its 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 – MGM Resorts International – Gambling and Porn

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

MGM Resorts is one of the world's largest gaming companies with a massive presence in Nevada but also has casinos located in Michigan Maryland, Massachusetts, Illinois and Mississippi. Outside the United States the company has facilities in Dubai and China. In total, it now operates 27 gambling casinos around the world and employs 77,000 people. The company was founded by an eighth grade drop-out named Kirk Kerkorian who rose to prominence in the casino and movie business. Kerkorian was one of the first to build a huge hotel in Las Vegas in 1962 just as Las Vegas was beginning to become the gambling capital of the United States. Sadly, one of MGM Resorts properties in Las Vegas is the Mandalay Bay property from which a gunman recently killed 59 people and injured 527. On the company's website, it states that "entertainment is a fundamental human need - therefore we exist to entertain the human race". We can certainly think of many more things that are far more important human needs than entertainment and the mode this company has chosen to entertain the human race promotes both gambling and pornography, both of which are known to harm individuals caught up in these sins and destroy the family structure that is so important to a properly functioning society. While Fortune magazine has designated MGM Resorts International as one of the world's most admired companies, we believe this is a sadly misguided award. No company which exists to profit off the frailties of their fellow human beings, potentially leading their clients down a path to personal and family destruction, deserves to be recognized in any positive manner by any organization.

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

STEWARDSHIP PARTNERS MINISTRY COMMENTARY

Our Ultimate Goal – Funding the Lord's Work

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

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

Featured Ministry – Care Net – Saving Children's Lives

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

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. Founded in 1975 as the Christian Action Council by Harold O.J. Brown, the organization's early years were also influenced heavily by former US Surgeon General, Dr. C. Everett Koop and Dr. Francis Schaeffer, all giants and trailblazers in the Christian conservative movement. In the 1980s, the organization's mission crystallized into establishing pregnancy centers and equipping them to empower women to make life-affirming decisions in response to an unplanned pregnancy. The organization subsequently adopted the name "Care Net". Now, 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. Emergency counseling is also available via the ministry's 800 number. 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. Care Net envisions a culture where women and men faced with pregnancy decisions are transformed by the gospel of Jesus Christ and empowered to choose life for their unborn children and abundant life for their families.

Care Net is working to end abortion, not primarily through political action, but by building a culture where woman and men receive all the support they needs to welcome their children and create their own success stories. 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. According to TIME Magazine, hardly a magazine to say something positive about a group seeking to end abortion, pregnancy centers are playing an important role in why abortion rates have lowered in recent years: "That would seem to be evidence that the quiet campaign for women's hearts and minds, conducted in thousands of crisis pregnancy centers around the country, on billboards, phone banks and websites, is having an effect…"

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 a relatively small ministry that deserves to be much larger 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

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 – Excellence in Giving

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

One element that has long been missing from the Christian Ministry Marketplace has been the aid and counsel that qualified, experienced advisors can bring to a giving decision. Due to the absence of such guidance, many well-intentioned donors have made giving decisions that proved to be less than optimal. Excellence in Giving (EIG) seeks to fill that gap and thereby bring forth more resources for the Lord's work. Founded by Wall Street veteran Al Mueller, EIG is one of a group of philanthropic advisors that seek to transform the burden of wealth into the joy of generosity for major donors. The goal of the firm is to maximize the value and satisfaction of their clients' charitable giving. This is accomplished through a four-step process:

1. Discovery – EIG explores the issues their clients care most about, the values that they want to pass on to their children and the legacy that they would like to be remembered for.
2. Evaluation – EIG reviews their clients' current giving and produces an impact and satisfaction assessment. Analysis of new opportunities combined with the establishment of giving guidelines and initiation of a due diligence process are part of a course of action that leads to a Giving Game Plan.
3. Participation – EIG works with its network of contacts to identify the best opportunities, manages every aspect of the giving process from project evaluation, negotiation of grant terms and outcome measurements and seeks to partner with others, where appropriate, to leverage the client's gift.
4. Celebration – EIG provides both a quantitative and qualitative review of the giving process and the positive results achieved are celebrated.

EIG also offers access to a database of information on a variety of charities. This information can be found at www.IntelligentPhilanthropy.com and for a small charge, donors can gain obtain a two page report that is certain to enhance the quality of their giving. Full Disclosure: The Biblically Responsible Investing Institute is a small equity owner in Excellence in Giving.

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

Stewardship Partners Investment Counsel, Inc.
PO Box 157 Matthews, NC 28106-0157
Phone: (800) 930-6949 Fax: (800) 930-6949

E-mail: cgoddard@stewardshippartners.com
Website: www.stewardshippartners.com