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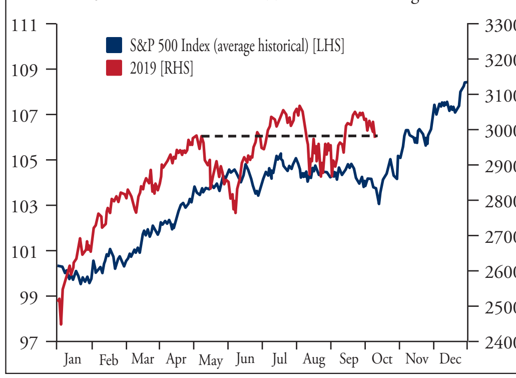
"Sell in May and Go Away" Was Good Advice This Year

"Go away with your family and stay for a while …, because the Lord has decreed a famine." 2 Kings 8:1

As we have noted in the past, the seasonal pattern for stock prices typically involves weakness in the third quarter of the year, particularly in August and September. Chart 1 highlights this pattern played out once again as share prices weakened in August and struggled again as September came to a close. In the end, due to strong performance in July, US equities were able to still eke out a 1% gain during the third quarter of 2019, although that advance quickly evaporated on the very first day of the fourth quarter when stock's tumbled. Overseas equities, however, did suffer losses in 2019's third quarter. Even with the early fourth quarter sell-off, however, US equities remain ahead of the seasonal pace seen in an average year since 1990, due largely to the strong rise in share prices during the January thru May time period. Since May, however, equities have been little changed due to a variety of economic and geopolitical concerns, and despite two rate cuts by the Federal Reserve. Moreover, accommodative monetary policy is being applied by virtually all the world's central banks now, which typically has provided strong support for equities. While October can also be a time when the markets remain volatile, the remaining portion of the fourth quarter often is the strongest time of the year for stocks. In 2018, however, global equity markets swooned into a bear market on premature recession fears. Now those fears are more justified and we are therefore naturally a bit wary of a repeat of what happened late last year. And while the S&P 500 hit an all-time high in late July, it really has not moved much over the last 20 months.

Chart 1

Stocks Struggled in 3Q, As is Typical
S&P 500 YTD Return vs. its 1990-2018 Year Average Return



Source: Topdown Charts, Thomson Reuters Datastream

Table 1

3Q19 Total Returns

US Indices	2Q19	YTD	5y Ann
S&P 500	1.7%	20.6%	10.8%
S&P 500 Value	2.8%	20.0%	8.5%
S&P 500 Growth	0.7%	21.1%	12.8%
NASDAQ	0.2%	21.5%	13.5%
S&P 400 (Mid Cap)	-0.1%	17.9%	8.9%
S&P 600 (Small Cap)	-0.2%	13.5%	9.9%
Treasury Bonds	2.4%	7.7%	2.9%
High Grade Corp. Bonds	3.0%	13.2%	4.7%
High Yield Corp. Bonds	1.3%	11.4%	5.4%
Gold	4.5%	14.8%	4.0%
Global & International Indices			
MSCI World	0.5%	17.6%	7.2%
MSCI EAFE	-1.1%	12.8%	3.3%
MSCI Euro	-2.0%	13.9%	2.4%
MSCI Far East	0.7%	9.9%	5.5%
MSCI China	3.1%	11.1%	5.6%
MSCI Japan	-4.7%	7.6%	6.0%
MSCI Emerging Markets	-4.2%	5.9%	2.3%
US Economic Sectors			
Energy	-6.3%	6.0%	-5.1%
Materials	-0.1%	17.1%	5.4%
Industrials	1.0%	22.6%	9.7%
Consumer Discretionary	0.5%	22.5%	14.0%
Consumer Staples	6.1%	23.3%	9.3%
Health Care	-2.2%	5.6%	8.9%
Financials	2.0%	19.6%	10.5%
Information Technology	3.3%	31.4%	18.2%
Telecom	2.2%	21.7%	5.2%
Utilities	9.3%	25.4%	12.9%

Source: Bloomberg

At Stewardship Partners, we increased our already high cash position during the third quarter to reflect the continued global recession threat and the uncertainty about oil supplies triggered by the attack on Saudi oil facilities in September. With the US economy already noticeably slowing and foreign economies on the brink of recession, the potential of a serious disruption in oil supplies stemming from new attacks on Saudi and other gulf oil facilities caused us to increase our cautious stance towards the market. The global economy is at a delicate point where it could not easily withstand a rapid spike higher in oil prices. While the initial attacks on the Saudi facilities were serious, global oil supplies were not imperiled for long. Moreover, this attack was not quickly followed by others. Still, it remains unclear whether whoever is responsible for the first attack, most likely Iran - either directly or indirectly, is poised to strike again. The risk of a larger attack with longer lasting consequences for both oil prices and the global economy remains higher than we are comfortable with. With the Iranian leadership under severe pressure due to US sanctions which are crushing their economy, they appear to be lashing out in a variety of ways to increase the cost to the US, and the West generally, of continuing those sanctions. Since the sanctions remain in place, we view the risk that Iran will pursue other provocative options to get the US to back off remains high. The admirable restraint shown by both the US and the Saudi's in not retaliating militarily thus far against Iran (except for two missiles being shot at an Iranian oil tanker, presumably from Saudi Arabia) for its taking oil tankers hostage, shooting down a US drone and bombing Saudi oil facilities may not last forever, especially if Iran once again escalates the fight. Should a full scale war impacting oil supplies develop in the Middle East, the markets are not likely to react well.

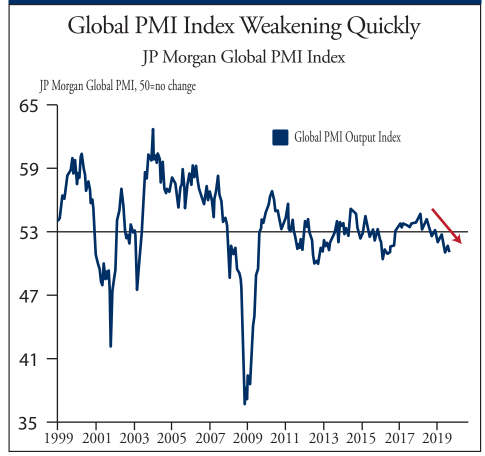
Even outside of this unusual risk, the situation for investors is certainly not ideal at the moment. The efforts of central banks around the world to revive economic growth have not yet been successful. Economic growth in the US, long the standout among its global peers, remains positive but is low and faltering. The global recession in manufacturing now appears to be threatening to spread to the much broader services portion of the global economy. If it does, corporate earnings will decline and the risk of a meaningful market downturn would grow. There have been some signs loose monetary policy is beginning to have a positive impact on global economic growth, but it is too early to determine if this will accelerate into a sustainable trend. Accordingly, we remain cautiously invested, holding a high level of cash in most of our portfolios at this time. While we are defensively positioned, we have not yet felt it necessary to hedge our portfolios against the potential for a longer and sharper fall in share prices.

On the Brink of Recession, But it May Still be Avoided

"Avoid it, do not travel on it; turn from it and go on your way." Proverbs 4:15

The global economy remains in a low growth mode but that suboptimal growth could be best described as teetering on the edge of recession. The manufacturing sector of the global economy remains the main culprit for this economic weakness. Chart 2 indicates the decidedly downward trend in 2019 of the Global Purchasing Managers Index (PMI), a standard measure of manufacturing activity around the world. In September, the US PMI hit a low not seen since the Great Recession. While the decline to recessionary levels has so far not been too severe, there is concern around the world it could become so if left unchecked. Therefore, central bankers around the world are now pursuing easier monetary policy in unison. Thus far these efforts to stimulate economic growth have been to no avail since the world's manufacturing sector remains in a clear negative trend. While the non-manufacturing PMI remains in expansion territory, it too has been weakening in recent months. Until these falling trends are reversed, the risk of a global recession will continue to be a growing worry for investors. Europe and even China - if we knew the true economic data in China - may already be in recession.

Chart 2



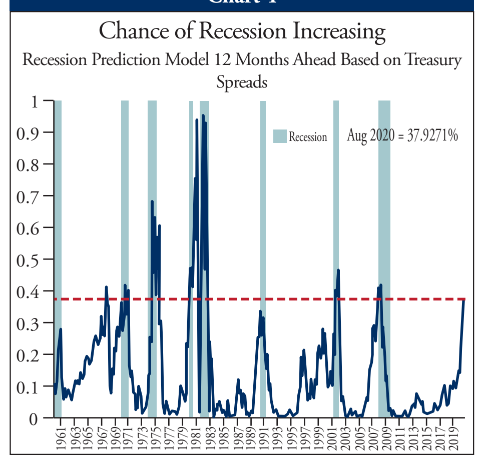
Source: IHS Markit

Chart 3

Source: Bloomberg Intelligence

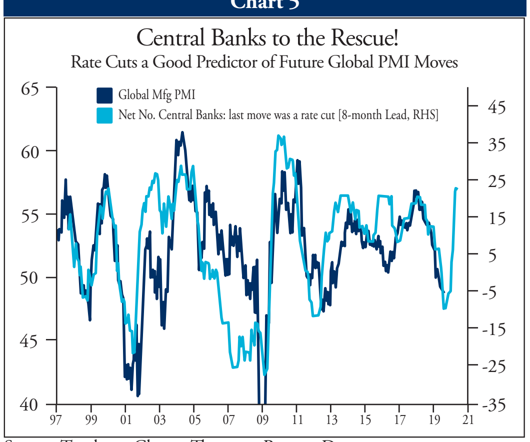
Certainly one of the reasons for weakness in the global manufacturing sector is the trade war instigated by President Trump. His desire for fairer trade between China and the United States is clearly justifiable but obtaining the desired outcome will not be achieved without some cost to economic growth. The question now is whether that cost can be contained to what has already been seen. The recently announced limited agreement with China may be somewhat helpful but may be too little too late to quickly ignite global growth. As can be seen in Chart 3, however, the level of trade deterioration so far has not been huge in a historical context, so reversing the trend may not be too difficult.

Chart 4



Nevertheless, real progress on trade likely needs to be made soon if a recession is to be avoided. Chart 4 shows how one measure of the likelihood of an imminent recession has already risen to levels seen prior to the previous three recessions. This is no doubt why the Fed decided to begin a new easing campaign this summer. With two rates cuts already completed, we believe the chance there will be more cuts coming soon remains high. Fed officials claim in their speeches they do not see a recession in the US on the horizon but their actions are telling us they are concerned.

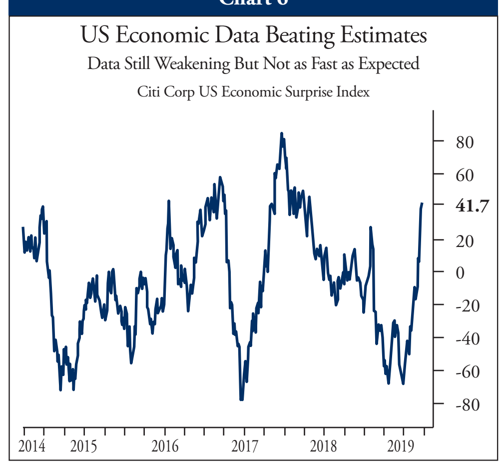
Chart 5



Source: Topdown Charts, Thomson Reuters Datastream

There is some reason to hope the central bankers moved fast enough to turn the global economy around, led by the manufacturing sector. Chart 5 portrays the link between central bank rate cuts and the direction of the Global Manufacturing PMI. If the past predictive value of this relationship holds up, we should begin seeing improved manufacturing activity very soon. If China and the US can also agree on a more meaningful trade deal, that also would help the globe avoid a recession. That may be more than we can hope for, however, as the US may have a geopolitical goal of destabilizing China's economy via the trade war that means it will not be seeking to solve the trade troubles with China before the Chinese economy really sinks into a recession, thereby hindering China's global ambitions for a while.

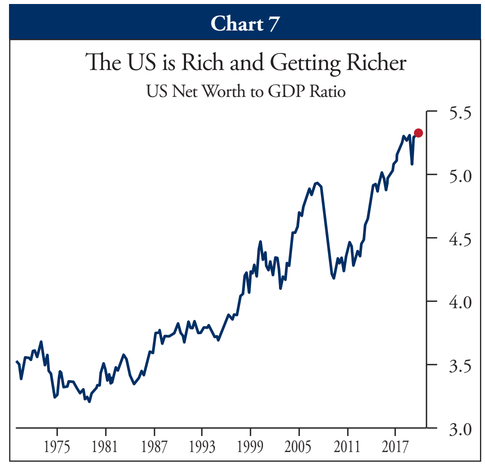
Chart 6



Source: Citi Corp

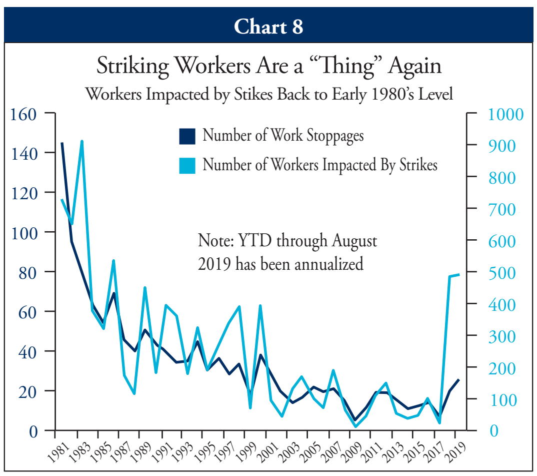
Meanwhile, while the economic data in the US has been weaker in general, it has often still been better than economists expected as seen in the recent positive trend in the Citi Corp. Economic Surprise Index (Chart 6). The US may well lead the global economy higher in the near future if these better than expected economic reports continue.

While growing slowly, the US economy has many positive aspects to help it through a period of slow growth. First, the low interest rate environment is a clear benefit to the housing industry, most of which is still showing signs of growth (although with some notable exceptions in places like New York City and other high cost regions). Clearly, with unemployment hitting record low levels and wages rising at a decent clip, the consumer remains in a good position. Moreover, consumer debt levels are much better than at the start of recent recessions. Since the consumer represents such a large portion of economic activity, steady employment income for just about anyone willing to work should help shield the economy from a nasty fall, assuming employment remains strong. Additionally, as seen in Chart 7, not only are consumer incomes rising but also their wealth is at a record high as well largely due to rising housing and equity prices. The US consumer's relatively strong position is a firm bulwark against a deep recession as long as the jobs market stays relatively firm and housing and equity prices do not collapse as they did in 2008.



Source: The Daily Shot

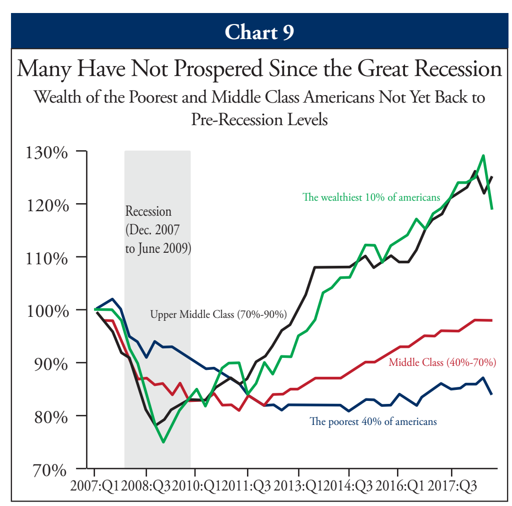
One unexpected threat to the economy which could arise as a result of the very tight job market is labor strife. While union jobs now represent a minor portion of the total jobs market, the recent strike against General Motors manufacturing facilities is a sign labor's bargaining position has improved due to the current ultra-low unemployment situation. As General Motors plants go off-line due to the strike, the negative impact on the manufacturing sector's employment levels slowly spreads not only around the US, but also in Mexico and other places where parts are manufactured for GM vehicles. Chart 8 indicates the recent sharp jump in workers being impacted by work stoppages to levels not seen in several decades. Given the wide disparity in how various segments of society have benefitted from the longest ever US economic expansion, we would not be surprised to see this new trend towards labor demanding a bigger piece of the economic pie continue to grow. If so, there could eventually be economic consequences which could make maintaining the economic expansion more challenging. For example, work stoppages reduce production thereby threatening an already weakening economy. Higher wages also lead corporations to find other ways to maintain profit margins, including replacing humans with machinery, leading to higher unemployment. Furthermore, higher wages contribute to cost-push inflation which eventually could require the Fed to adopt new inflation-fighting policies which simultaneously discourage economic growth. At the moment, we do not see any of these implications manifesting in the US economy, but it will be important to keep an eye on these trends to see if major changes could be in store for the US economy over the next five years. A return to a 1970's style economy would also have a negative impact on corporate profits and stock valuations.



Impeachment Seems Like a Sham, But 2020 Should Impact The Market

"He deprives the leaders of the earth of their reason." Job 12:24a

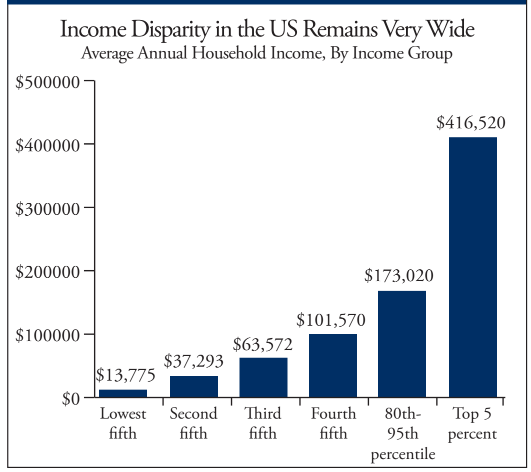
The political turmoil in Washington, DC is currently at a fever pitch. Nancy Pelosi's "Impeachment Inquiry" is the primary reason for this latest increase in political tensions, although there remains a considerable amount of doubt as to what exactly this inquiry means in a technical sense. It certainly is not yet an actual impeachment and it increasingly appears to just be another political stunt meant to undermine President Trump's re-election. So far, that is the opinion of the financial markets, which have largely, and likely sensibly, ignored this latest political drama. While the impeachment issue may eventually prove to be just a minor sideshow in the 2020 election, investors know the stakes in the upcoming elections are very high. As we thought likely, much of the political the left has overreacted to Trump's conservative presidency by foolishly embracing as many radically liberal concepts as they can thereby risking becoming politically irrelevant in the general election thirteen months from now. What really matters to most voters is their overall well-being. At the moment, the situation for many Americans is as close to good as it can get. Still, not all Americans have shared equally in the long economic recovery from the Great Recession in 2008 as seen in Chart 9 and this could lead some voters to want to move on from President Trump next year.



Source: Federal Reserve

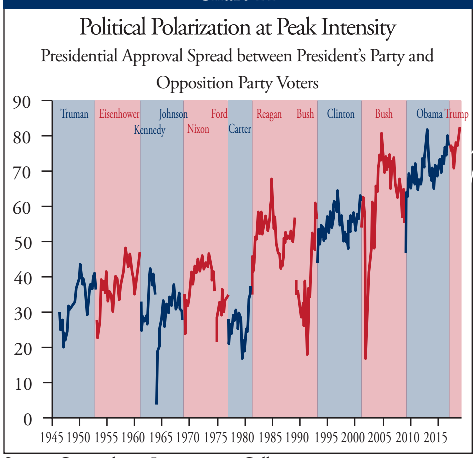
Economic issues are normally the most important in determining the outcome of a presidential election. Given the good overall state of the US economy, this should tend to sway the early odds in favor of President Trump. But US economic growth is wavering at the moment and the manufacturing sector is leading that weakness. Since President Trump promised - and initially delivered - more manufacturing jobs, his re-election case could be undermined by sharp downturn in this sector if it is not reversed before November 2020. He is president because he won key "rust-belt" states by very small margins and he could lose next year if even a relatively small number of those previous Trump voters abandon him in 2020. Democrats have seized on the income and wealth disparities in the US (see Chart 10) as a way to undermine Trump's success in restoring a measure of economic vitality in the US. This inequality may resonate with some 2016 Trump voters in those key rust-belt states which are typically pre-disposed to vote for Democratic candidates anyway.

Chart 10



Source: Economic Policy Institute

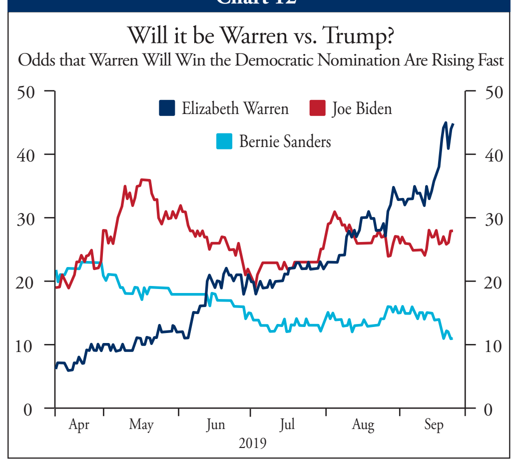
Chart 11



Source: Guggenheim Investments, Gallup

Additionally, the long term trend towards political polarization has clearly continued under President Trump (Chart 11). President Trump's combative personality likely has contributed to that trend as some voters find it offensive while others find it just what is needed. Liberals seem to be running from more moderate political views as fast as they can while conservatives are standing their ground on the right, leading to greater political strife and very little common ground for the two parties to move towards in order to accomplish anything legislatively. And while the rust-belt states that gave Trump the victory in 2016 may not be as happy with how they personally benefitted from Trump's economic policies, many of them are more moderate politically than current Democratic Party front-runners and may find it hard to vote for whoever wins the democratic nomination. The 2020 election will likely offer voters a stark choice between two candidates with very different visions for the US. The outcome of the 2020 election will have very important consequences for our country as a whole and certainly for investors. At the moment, investors are largely ignoring the polling showing almost any Democratic candidate will defeat President Trump, but that should change as 2020 progresses.

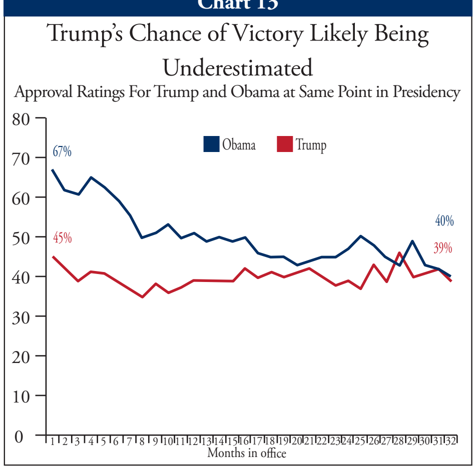
Chart 12



Source: Predictit

Elizabeth Warren has clearly been able to win over the non-moderate portion of the Democratic Party. As seen in Chart 12, her chances of winning the nomination are soaring, even though Joe Biden still holds a lead in most polls as the presumed more moderate candidate. While it remains very early, it is hard not to see Warren continuing to win new support as many of the other liberal candidates eventually drop out of the race. Since Warren and Sanders hold many of the same views, it seems likely she will inherit many of his supporters if he drops out. Even before he does so, following his recent heart attack, some Sanders supporters will likely move towards Warren as a more electable option. Should this happen, Warren would likely soon match or even surpass Biden in the pre-primary polling. Defeating President Trump in the general election, however, will be a more formidable challenge for Warren and we can expect her to greatly moderate some of her more radical policies to appeal to a broader portion of the electorate if she wins the Democratic nomination.

Chart 13



Source: Gallup

The liberal press likes to focus on polling that shows President Trump's low approval rating. What they often fail to mention, however, is that it is virtually the same as that President Obama scored at the same point in his first term in office (Chart 13). President Trump certainly has a hard battle ahead of him to win re-election, but many are likely underestimating his chances due to the relentlessly negative press coverage he receives. Should Warren or another Democratic candidate win, however, the financial markets will likely not react well to that initially. Should the US economy stumble into the election and Trump's electoral prospects wane along with that trend during 2020, this will clearly be a negative factor which will limit the upside for equities next year given the anti-wealth, anti-capitalism vibe currently coming from the Democratic Party. Nevertheless, Democrats would also need to win the US Senate in 2020 to be able to have much hope of making the transformational changes to our economic system which they are currently promoting. That seems unlikely given the greater than 70% odds Republicans currently have on retaining the Senate according to odds makers. Investors will want to keep a close eye on the most competitive senate races since if the Republicans lose the senate as well as the presidency, the market's initial reaction would likely be severe.

Still Cautiously Positioned, But Poised to Get Fully Invested

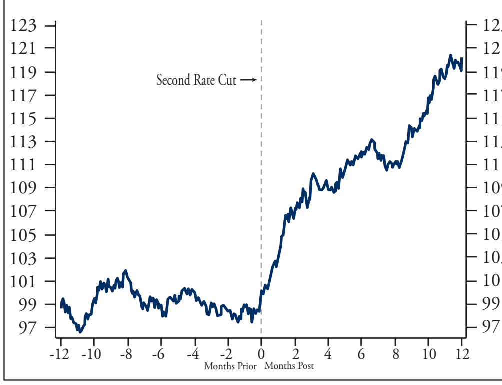
"Be sure you know the condition of your flocks, give careful attention to your herds" Proverbs 27:23

While the 2020 election will increasingly come into investor's focus as the month's pass, Fed policy and the trade war with China are dominating the investment landscape right now. Clearly, the Fed is once again a friend of investors as two interest rate cuts have already been put in place and the market believes a third reduction is likely soon. Chart 14 portrays the performance of the Dow Jones Industrial Average before and after a second Fed rate cut. As can be seen, the market is normally still a bit doubtful the Fed's actions can achieve an economic recovery following the first rate cut, but investor confidence usually grows quickly following the second rate cut. Now, the trade war is an additional factor impacting the financial markets in the current situation and, if it remains unresolved, equities may not react as favorably as in the past. Additionally, the Fed is trying to sustain the US's longest ever economic expansion and, despite its best efforts, it just may not be able to fully offset the economic forces at work this late in the current expansion. Still, given the upcoming positive seasonal influences in equities (the fourth quarter normally enjoys the year's the best returns – see Chart 1), we are poised to once again get our client's portfolios fully invested when this seems appropriate.

Chart 14

Equities Usually Respond Favorably to a Second Fed Rate Cut

Performance of the Dow Jones Average Before and After a Second Rate Cut

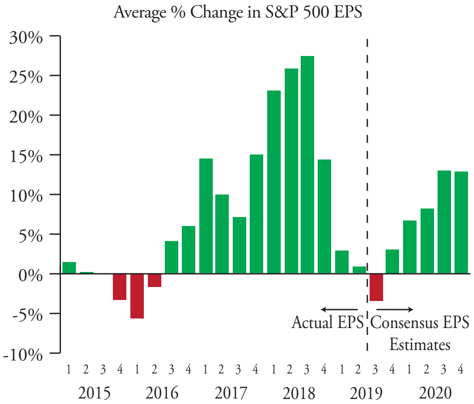


Source: Ned Davis Research

Chart 15

Earnings Slump Almost Over

Average % Change in S&P 500 EPS



Source: FactSet, Goldman Sachs Global Investment Research

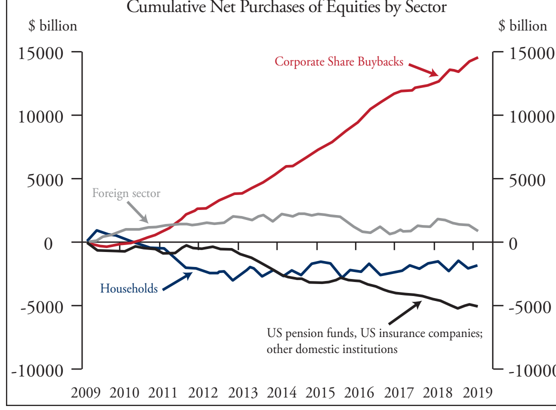
One reason to be more optimistic about the future trend in share prices is the anticipated recovery from the current weakness in corporate earnings. As shown in Chart 15, the growth rate in corporate earnings has dived over the last year from a high of 27% to an expected low of -3% in the third quarter of 2019. Assuming a recession is avoided, corporate earnings should recover over the next year to a more normal 10%+ rate, thereby creating a better environment for share prices to rise. Those earnings expectations, however, would dwindle rapidly if the US economy fell into a recession. While we do not believe a recession is likely at this time, the chance one might occur is still high enough to remain wary. Accordingly, we continue to hold a high level of cash but we are simultaneously ready to deploy that cash into attractively valued shares at the appropriate time.

Despite good returns achieved in the equity markets in recent years, many investors appear to have been net sellers of shares. We are not sure Chart 16 captures accurately all the ways investors deploy their money, but it suggests both the average household and the average institutional investor have been net sellers of corporate equities since the end of the Great Recession. These trends may be overstated as both households and institutional investors sold shares but participate in the equity markets indirectly via ETF's and hedge funds. Still, the main message of Chart 16 is that companies have consistently been buying back their own shares and this has likely been the single biggest contributor to the demand for equities since the Great Recession ended. Between dividend payments and share buybacks, public companies have recently been spending around 100% of their available free cash flow. Accordingly, there is a risk in a recessionary environment, the demand for shares from corporate buybacks could shrink considerably as corporate cash flows dry up and corporate management shifts into a savings mode. If so, this could pull a very important prop out from under share prices.

Chart 16

Corporate Share Buybacks Supporting the Market

Cumulative Net Purchases of Equities by Sector

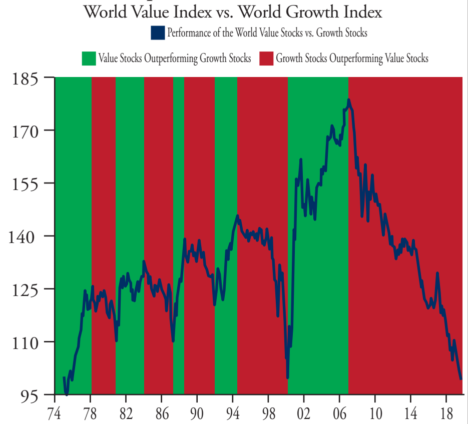


Source: FRB, Haver Analytics, DB Global Research

Chart 17

Growth Has Beaten Value Over an Unprecedented Time Frame

World Value Index vs. World Growth Index



Should our confidence grow a recession will be avoided in the US, one type of stock we will be looking to purchase will be value stocks. As displayed in Chart 17, growth stocks have trounced value stocks over the last twelve years. That is an extraordinarily long period of time for either growth or value stocks to have dominated the other and strongly suggests a big reversion to the mean is at hand. Valuations for growth stocks are also extraordinarily extended versus those of value stocks at this time, also suggesting a reversal may be at hand. Small cap value stocks are also at huge valuation discounts to large cap growth stocks at this time. Furthermore, European and emerging market stocks are also looking very attractive from a valuation perspective. All these things have been true for some time, but these overdone trends will reverse at some point. When they do, it will be a great opportunity to earn excess returns.

Despite Short term Risks, In The Long Run Investors Always Win

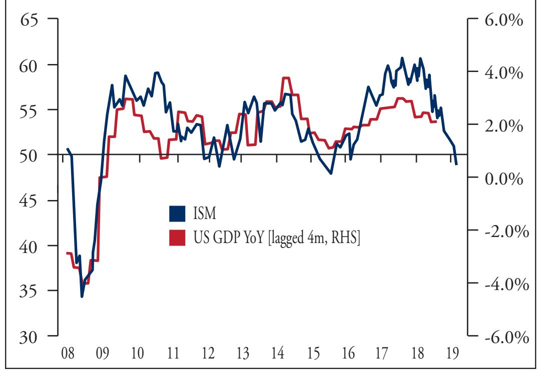
"In peace I will lie down and sleep, for you alone, Lord, make me dwell in safety." Psalm 4:8

While interesting investment opportunities abound in value stocks and outside the US for long term investors, it would be premature to invest in these areas before seeing a reversal in economic trends currently still hinting at recession. While the manufacturing sector does not represent a sizable portion of the US economy, trends in this sector have still shown a degree of predictive power regarding the future direction of economic growth as revealed in Chart 18. Given the steepness in the recent downturn in US manufacturing, it is not yet clear this trend will reverse just as quickly leading to a more positive outlook for future GDP growth. As a result, we are unwilling to invest more normally until there is progress on this measure. Beyond that, there is a risk that US economic growth will be undermined by the impact of weaker economies overseas. Normally, the US causes a recession for the rest of the world, but that sequencing may be reversed this time. Since the trade component of the US economy is not large, however, the US might be able to continue to grow slowly even if the rest of the world descends into a recession. But that is not something worth taking a chance on at this point.

Chart 18

PMI Index Predicts Negative GDP Growth

PMI Index (lhs) versus % Change in US GDP (YoY lagged 4 quarters, rhs)

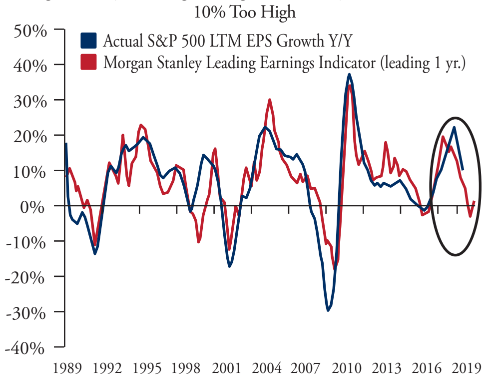


Source: Topdown Charts, Datastream, Markit

Chart 19

Indicator Suggest Further Earnings Weakness Ahead

Morgan Stanley's Leading Earnings Indicator Says EPS Forecasts are 10% Too High



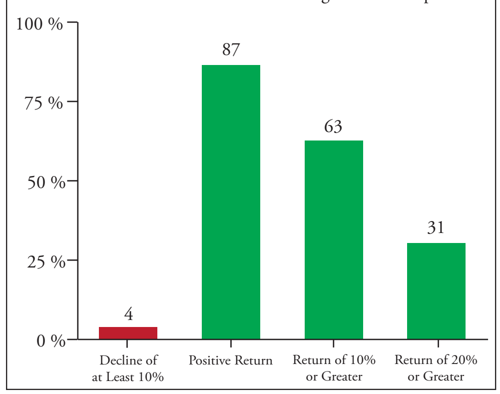
Source: Thompson Reuters, Morgan Stanley Research

Historically, the best leading indicator of a future recession has been share prices as normally equities weaken on average about 7 months before a recession starts. Another good guide is the Index of Leading Indicators (of which equity prices are a component) which typically peaks about 1 year before a recession. Unemployment claims are another leading indicator, historically hitting a low point about one year prior to the onset of negative GDP growth. Chart 19 highlights another indicator developed by Morgan Stanley that also has been fairly accurate in forecasting an earnings decline in the next twelve months. At the moment, this indicator is predicting just a brief foray into negative GDP growth but we will be watching to see what future data points from this and other measures suggest is the likely future path of the US economy and corporate earnings. Future earnings expectations would start to crumble if an economic downturn develops further.

Chart 20

Odds of Making Money are High When Economy is Growing

Odds of S&P 500 1 Year Total Return During Economic Expansions



Source: Investment Strategy Group, Bloomberg

While investing just prior to and during recessions is challenging, investing during periods of economic growth is relatively low risk. Fortunately, economic growth is more often positive than it is not. As can be seen in Chart 20, there is an 87% chance of a positive return for investors when the economy is in a growth mode. While downturns can still happen during an economic expansion, there has historically only been a 4% chance that a correction of more than 10% would occur when the economy is advancing. Unfortunately, we saw one of those rare instances just late last year when the S&P 500 fell 19.8% even while continued economic growth was not really at risk. Investor's emotions can still sometimes overwhelm the facts for short periods of time leading to unnecessary sell-offs. Knowing this is a rare circumstance, however, leads us to want to be fully invested when the outlook is good. At this time, the outlook is hazy and it is not yet clear the US economy will be able to avoid a recession. There are also other factors weighing on the financial markets, including unusual shortages of funding in bank short term funding markets which the Federal Reserve has had to recently address. Frankly, this situation remains a bit of a mystery and likely will not develop into something which could harm the financial markets, but it is another red flag which we will be monitoring. The Fed's initial response to this issue has been QE-like, but it is not the same. As a result, we don't think any benefits to share prices will be lasting.

Table 2

The Longer You Hold On, The Better Your Chances of Making Money

Odds of a Positive Return on the S&P 500 Over Different Time Frames

Time Period	% Positive
1-Year	73%
3-Year	83%
5-Year	88%
7-Year	93%
10-Year	94%
15-Year	99%
20-Year	100%
25-Year	100%
30-Year	100%

Source: @CharlesBiello

As long term investors, we are also cognizant the odds of investment success rise quickly as the time period money is left in the market increases (Table 2). Recessions, corrections and bear markets tend to be short-lived while expansions and bull markets normally stretch over multiple years. This has become even more true as central bankers have honed their skills at managing the economy. As a result, our inclination is to remain invested unless the risk of recession is high. We hope the accommodative policy of the world's central bankers will soon bear fruit so we can put the cash in your portfolio back to work in order to obtain favorable long term returns.

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 to 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 (BRII, 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 client's 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, Chubb, and ones we avoid, Johnson & Johnson and other opioid manufacturers. Chubb is a holding in some Stewardship Partners portfolios while we actively avoid ownership in opioid makers to not 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 – Chubb – Noteworthy Corporate Citizenship

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

Chubb, which traces its founding to the 18th century in Philadelphia, PA, is now the world's largest publicly traded insurance company and is the largest commercial insurance company in the United States. Chubb operates in in 54 countries and territories around the world. Its assets amounts to $168 billion and its revenue in the most recent year exceeded $33 billion. The company employs more than 30,000 people and maintains a large presence in New York, London, Paris and Zurich. Chubb maintains a high level of financial strength, befitting its leadership position in the commercial insurance industry, and has received an "AA" rating for financial strength from Standard & Poors and an "A++" rating from A.M. Best. Chubb provides commercial and personal property and casualty insurance, personal accident and supplemental health insurance, reinsurance and life insurance to a wide variety of clients across the globe. According to its website, "Chubb is also defined by its extensive product and service offerings, broad distribution capabilities, exceptional financial strength and local operations globally. The company serves multinational corporations, mid-size and small businesses with property and casualty insurance and risk engineering services; affluent and high net worth individuals with substantial assets to protect; individuals purchasing life, personal accident, supplemental health, homeowners, automobile and specialty personal insurance coverage; companies and affinity groups providing or offering accident and health insurance programs and life insurance to their employees or members; and insurers managing exposures with reinsurance coverage."

Chubb's CEO states the following in the introduction to the company's code of conduct document, "As Chubb employees, we have an obligation to practice our craft with integrity, and to uphold the Company's reputation for ethical conduct. We are ultimately defined by the choices we make and the actions we take, and our customers, shareholders, business partners and co-workers expect honest and ethical conduct from us each and every day. All of us are accountable for our actions, and we must hold ourselves to exacting standards. The Chubb Code of Conduct reaffirms our shared commitment to ethical behavior throughout the organization. It will guide you in your day-to-day activities as Chubb employees by clearly defining the organization's expectations for ethical conduct." Chubb's extensive code of conduct highlights one of the reasons why the company has been so successful. Chubb highlights the necessity of keeping communications channels open when dealing with ethical and compliance issues. Employees are encouraged to ask difficult questions, communicate with their supervisors when confronting controversial issues and always have access to an ethics hotline where concerns can be reported anonymously. Employees are also told to cooperate fully with any internal or external investigation of Chubb's business and are also encouraged to make suggestions on how Chubb's ethics policies could be improved. Chubb also commits to never tolerate retaliation against employee whistleblowers. The company also stresses collaboration and respect among its employees as well as building an environment where Chubb is always seen to be trustworthy and reliable in all its dealings with clients, partners, government agencies and others the company works with. Finally, the company stresses that its workers should at all times emphasize integrity and honesty.

As an insurance company that sells various employee benefits packages to other companies, it is not surprising that Chubb would offer an extraordinarily wide selection of attractive benefits to its own workers. Indicative of this, the company recently announced that it had been named as one of the best potential employers for recent college graduates by Forbes magazine. Chubb offers a wide variety of insurance coverages for its employees. Regarding medical insurance, the company provides multiple options, including standard medical insurance along with Flexible Spending Accounts (FSA) as and Health Savings Accounts (HSA). Dental and vision insurance are also provided to Chubb's staff. Chubb also offers mental health care assistance, retiree health care and health care facilities in their offices. Additionally, the company offers occupational accident insurance, life and supplemental life insurance, accidental death and dismemberment insurance and disability insurance. Obviously, Chubb is an insurance company and therefore has gone out of its way to offer insurance coverage to its employees! Chubb is also generous with its employees with regard to paternity leave, bereavement leave, military leave and time off to help family members who need medical attention. The company is also quite family friendly as it assists with dependent care and provides aid for adoptions and fertility issues its staff may be facing. There is also a flexible or reduced hour's option for those among its staff that need extra flexibility to deal with family issues. Additionally, there is a work from home option. Chubb is also supportive of their staff's charitable efforts allowing time off for volunteering and offering a charitable gift matching program. Naturally, as one of the leading insurance companies in the world, Chubb also offers attractive compensation packages to its workers. In addition to a base salary, there are also performance bonuses available. There are also a number of retirement options but a 401K plan is available to all employees. Recently the company increased the amount it would match of employee's contribution to its 401k plan. Not to be overlooked, Chubb also offers tuition assistance, legal assistance, gym memberships and other benefits.

Chubb operates the Chubb Charitable Foundation through which it does much of its philanthropy. In 2018, the foundation and several affiliated groups, donated $8.4 million to a wide variety of projects. While this is undoubtedly a large amount of money, relative to the size and profitability of Chubb, we believe the company should strive to do much better. Nevertheless, Chubb has several worthwhile charitable initiatives. Included among these is Per Scholas, a non-profit effort in New York City which brings rigorous and tuition-free technology education and professional development to both the unemployed and those in low wage jobs. Chubb also supports the International Rescue Committee which assists in humanitarian crises around the world. A little more than 70% of Chubb's financial gifts are given in the US with 15% in Bermuda and 15% in other countries. Roughly one-quarter of their donations are given to poverty and environmental causes with 57% being directed towards scholarships and employee-driven projects. In 2017, 830 Chubb employees donated over 2,800 hours to 43 different non-profit entities, including Habitat for Humanity and Dress for Success, a charity that helps women find work.

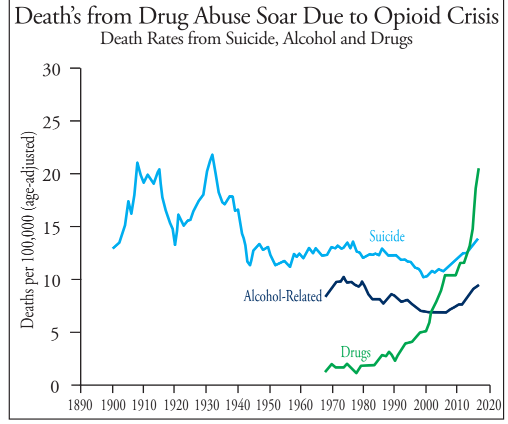
Chubb's numerous good works are, of course, no guarantee of long-term investment success. As Biblically Responsible Investors, however, the company's commitment to being an exemplary corporate citizen as well as its outstanding treatment of its employees, allows us to know we are shareholders in a company seeking to be a blessing to all. While no company, like no person, is perfect, this is a company which seeks to benefit all those it comes into contact with and is an organization we can be proud to be part-owners of!

The Bad – Opioid Drugmakers – Prioritizing Money Over Death

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

In late August, an Oklahoma judge fined drugmaker Johnson & Johnson (which also makes pharmaceuticals used during abortions) $572 million for its unconscionable role in the opioid epidemic that is estimated to have killed over 200,000 mostly young people so far. Shortly thereafter, Purdue Pharmaceuticals, a family controlled private company, offered to settle lawsuits against it by over 2,000 people for between $10 and $12 billion. It also declared bankruptcy as the huge legal costs of its prioritizing increased sales of its opioid drugs over the massively rising death toll of those addicted to these drugs (and related drugs like Fentanyl – see Chart 21 for the rapid growth in death from drug usage) ultimately led to its downfall. It has been clearly shown that Purdue and other opioid manufacturers ignored rather obvious evidence their aggressive and distorted marketing efforts were promoting an opioid epidemic and causing untold misery and death. Despite being fined hundreds of millions of dollars in 2007 by federal authorities for deceptive sales practices, Purdue did little to combat the rapidly rising addicitons the company's drug promoted. While we live in a fallen world where all of us our sinners in one form or another, those companies who used greedy sales tactics even in the face of terrible harm those marketing approaches were causing, are truly grievous sinners. It is hard to understand how companies like Purdue Pharmaceuticals, and many others, could not have known what was happening.

Chart 21



We seek to avoid investing in companies like Johnson & Johnson. As BRI investors seeking to please and honor our Lord, we naturally look elsewhere to achieve investment success as we do not want to be associated with a company using shareholder resources in a manner the Bible defines as sinful and which can have a negative impact on individuals and society in general.

Our Ultimate Goal – Funding the Lord's Work

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

It is our hope that Stewardship Partners' ability to create an abundance for you will help you to share with those who are in need and assist in fulfilling the Great Commission. Our non-profit ministry affiliate, Wall Watchers, provides a free service to help you educate yourself about the many wonderful Christian giving opportunities available to wise donors. We invite you to join the thousands of visitors to our ministry's website at 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 – MinistryWatch.com – Helping Donors Give Wisely

"Children are a heritage from the Lord, offspring a reward from him." Psalm 127:3

As indicated above, MinistryWatch.com is a sister organization of Stewardship Partners, so it is quite unusual that we are highlighting it in this space, which is typically reserved for other Christian ministries we believe are worthy of our reader's consideration to support. We have made an exception in this case, however, because we are excited to highlight a significant leadership change at MinistryWatch.com. Thanks to a very generous gift from a Stewardship Partner's client, MinistryWatch.com has been able to hire Christian ministry veteran and journalist Warren Cole Smith as its new President. Warren served for a number of years on MinistryWatch.com's board of directors soon after its founding in 1998 and is therefore quite familiar with the goals and mission of this ministry. As Warren takes the helm of MinistryWatch.com, his goal is to improve the ministry's current efforts to provide donors with a deep database of information which they can use to better inform their giving decisions to Christian ministries, but also to add an investigative journalism aspect to MinistryWatch.com's work. Unfortunately, the number of scandals in the Christian ministry community is large and has been growing rapidly over the years. Warren will be applying his considerable investigative skill set to alerting faithful donors to situations that they should probably avoid donating to and also plans to highlight those ministries that are worthy of a donor's gift. As part of this transition to Warren's leadership, the MinistryWatch.com website will be upgraded and the content on the website will be updated regularly and expanded. Rusty and Carol Leonard, who founded MinistryWatch.com over two decades ago will continue to serve on the ministry's board of directors.

Warren comes to MinistryWatch.com after serving for a number of years in a senior leadership position at the Colson Center for a Christian Worldview. He has also served as an Associate Editor of World Magazine and partnered with MinistryWatch.com co-founder Rusty Leonard on several investigative journalism articles at his time at World. Warren has written over 3,000 articles during his career and has written, co-written or edited 10 books, including "A Lover's Quarrel with the Evangelical Church". Warren also founded Christian newspaper chain that was twice awarded the "Newspaper of the Year" award from the Evangelical Press Association. On taking on the President's role at MinistryWatch.com, Warren stated the following: "Independent journalism is vital to the proper functioning of free society, but secular journalists often do not have the theological understanding or the depth of contacts to do anything more than 'drive-by journalism' when it comes to ministries and churches. Christian publications, while often excellent, are under-staffed, under-funded, and overwhelmed by volume of news that needs to be covered. MinistryWatch.com hopes to be to the Christian ministry world what such organizations as ProPublica and the Center for Public Integrity are to the secular world. We will be a donor advocate focused on original investigative and enterprise reporting." Readers are encouraged to make MinistryWatch.com part of their daily routine as we improve our website and increase the amount of valuable content available for our readers.

Since MinistryWatch.com asks other Christian ministries to be open about their finances, it itself is also very transparent about its finances and subjects itself to the same financial efficiency rating system that it applies to other Christian ministries. MinistryWatch.com currently earns a Five Star Financial Efficiency Rating, the highest rating a ministry can receive. As MinistryWatch.com opens this new phase of its development, we trust others will join us in supporting the vital work it performs in being an advocate for otherwise voiceless donors to Christian ministries.

The Christian Ministry Marketplace – Helping Donors Give Wisely

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

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

The Christian Ministry Marketplace
Resources for Christian Donors

WHY
to give to Christian ministries?

Teaching on Stewardship:

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

HOW
to give with a discerning mind?

Professional Advisors:

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

Donor Advisors:

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

WHERE
to invest in kingdom ministries?

Ministry Research:

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

Ministry Mutual Funds:

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

Featured Ministry Marketplace Participant – Waterstone

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

Founded in 1980 as the Christian Community Foundation, the organization later changed its name to Waterstone. It helps donors to Christian charities, financial advisors and Christian ministries themselves by offering wise counsel and innovative giving strategies to promote generosity to the Lord's work. Over the last 39 years, Waterstone has helped many people to sort through their complicated financial situations in order to reduce taxable income, eliminate estate taxes and minimize capital gains in order to free up as much money as possible to be donated faithfully to worthwhile Christian ministries. Over 5,000 different ministries have been blessed by the work of Waterstone with over $600 million in disbursements to a wide variety of projects since 1980. The uses of the foundation's gifts have ranged from orphan care to campus ministry to refurbishing CS Lewis' Oxford home and just about anything in between. Currently, there are over 2,600 Waterstone client giving accounts which hold over $400 million in future donations to Christian ministry. Waterstone has made a special effort to reach out to Christian financial advisors. The open platform the foundation offers and the multiplicity of aids it makes available to advisors make it easy for them to provide enhanced service to their clients while helping them properly set and meet their charitable goals. Whatever the need may be of a donor, financial advisor or charity, there is a very good chance Waterstone will be able to provide a solution which will make the giving process flow easily, provide unanticipated benefits to all involved and yield more eternal rewards than otherwise. When Stewardship Partners' founders were accumulating the needed funds to start MinistryWatch.com, they took advantage of the helpful staff and resources available at Waterstone to help get our ministry launched 21 years ago. Since that time, Waterstone's services and capabilities have expanded dramatically so that now many more Christian donors, financial advisors and Christian ministries can be blessed by this ministry's efforts.

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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