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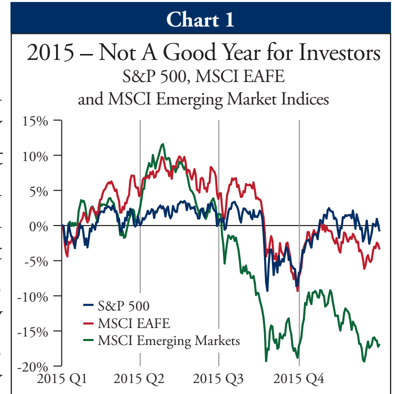
2015 - A Difficult Year When Almost All Investors Struggled to Make Money

"For our struggle is not against flesh and blood but against . . . powers of this dark world" Ephesians 6:12

Most investors were left unsatisfied by the investment results seen in 2015. After being spoiled by the long and largely uninterrupted equity bull market that started in 2009, the lackluster 2015 returns seen in almost every region of the globe and every asset category left much to be desired (Chart 1 and Table 1). Usually investors can count on diversification to provide some worthwhile returns even in the midst of an overall weak market environment. In 2015, however, investors seeking safety via a diversified portfolio usually ended up with even lower returns. High quality bonds provided little upside while junk bonds fell steeply and cash offered no return. Real Estate Investment Trusts produced mixed results, precious metals stumbled and commodity prices were crushed. Among equities, emerging market shares saw steep declines, developed markets outside the US were lower and only a very narrow list of already expensive, large cap growth stocks produced solid gains in the US. Of the ten S&P 500 sectors, only Consumer Discretionary was able to post a positive double digit return in 2015, and even then just barely at 10.1%. Even though it was a difficult year for financial assets, the five S&P 500 sectors with the lowest risk, as measured by beta, fell on average while the five sectors with the greatest risk rose slightly, the reverse of what would have been expected. The S&P 500 as a whole fell slightly on the year before dividends while very strong performance from four megacap equities which have become known as the FANG stocks (Facebook, Amazon, Netflix and Google) allowed NASDAQ to achieve a better return. Still, the median S&P 500 stock fell by double digits during 2015. Not surprsingly, given the success of the FANG stocks, value stocks also significantly underperformed growth shares. Small and mid-cap stocks, however, sustained losses while the strongest asset of all was the US dollar, rising over 9% in 2015.

Chart 1



Source: Bloomberg

Table 1

4Q15 Total Returns

US Indices	4Q15	YTD	5y ann
S&P 500	7.0%	1.4%	12.6%
S&P 500 Value	6.1%	-3.1%	11.0%
S&P 500 Growth	7.9%	5.5%	14.1%
NASDAQ	8.7%	7.0%	14.9%
S&P 400 (Mid Cap)	2.6%	-2.2%	10.7%
S&P 600 (Small Cap)	3.7%	-2.0%	11.5%
Treasury Bonds	-0.9%	0.8%	3.0%
High Grade Corp. Bonds	-0.6%	-0.6%	4.6%
High Yield Corp. Bonds	-2.2%	-4.6%	4.8%
Gold	-4.8%	-10.4%	-5.7%
Global & International Indices			
MSCI World	5.5%	-0.9%	7.6%
MSCI EAFE	4.7%	-0.8%	3.6%
MSCI Euro	3.4%	-2.8%	3.0%
MSCI Far East	8.7%	6.7%	4.1%
MSCI Japan	9.3%	9.6%	4.4%
MSCI Emerging Markets	0.7%	-14.9%	-4.8%
US Economic Sectors			
Energy	0.2%	-21.1%	-0.1%
Materials	9.7%	-8.4%	5.0%
Industrials	8.0%	-2.5%	11.5%
Consumer Discretionary	5.8%	10.1%	17.8%
Consumer Staples	7.6%	6.6%	14.5%
Health Care	9.2%	6.9%	20.3%
Financials	6.0%	-1.5%	10.5%
Information Technology	9.2%	5.9%	14.0%
Telecom	7.6%	3.4%	8.3%

Source: Bloomberg

The poor returns on equities in 2015 actually would have been even worse except for an unusually strong fourth quarter rebound of 7% in the S&P 500. That recovery came completely in October, a month normally associated with big market creashes. The index was flat in November and actually fell in December, the month that is normally the year's best. Frankly, we remain perplexed by the big jump in the markets in October as none of the fundamental concerns leading to the poor performance prior to then had ever been resolved. We are still not sure why the collective wisdom of investors (or perhaps speculators would be more accurate) felt it appropriate to rush back into equities in October when China's and Brazil's growing list of problems were clearly worsening, geopolitical tensions rose meaningfully, strains in the junk bond market were intensifying, commodity prices were still collapsing under the weight of slowing global growth, earnings were lower versus the prior year, valuations remained above normal and the Fed was on the cusp of finally beginning to push interest rates higher, among other concerns. The sharp sell-off in the markets in early 2016, as well as the unusually weak December, seemingly indicates investors finally recognized their odd October optimism was misplaced and in conflict with a more uncomfortable reality.

For Stewardship Partners clients, it was a mixed year. Early in 2015 we recognized the financial markets might not be that rewarding and adopted cautious positions in all of our portfolios. While that served us well through the third quarter of 2015, when almost all of our portfolios were ahead of the indices for the year, the peculiar October jump in share prices set our relative returns back as we maintained our cautious stance in view of the still disconcerting fundamentals and above average valuations. Had the sharp market sell-off at the outset of 2016 instead taken place just a few days earlier in late 2015, our full year results versus the indices would have looked better. Even so, a number of our portfolios still outperformed their indices in 2015, some significantly so. Strangely, given the backdrop of weak overall markets in 2015, our most aggressive portfolios performed best while our most defensive portfolios performed worst relative to the indices. The stronger performance of our aggressive portfolios can be traced to good stock picking while the defensive portfolios were hurt by the weakness in value and low beta stocks they typically hold.

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Global Deflation or Global Growth – Which Will Triumph?

"When the righteous triumph there is great elation" Proverbs 28:12a

Since the Great Recession in 2008, strong economic growth has been elusive and deflation has only been partially held off by extremely accommodative monetary economic policies. While the low economic growth (Chart 2), low inflation (Chart 3) outcome attained since the 2008 crisis was clearly a better result than the likely alternative of a lasting economic depression and a tidal wave of deflation, questions about the costs of achieving it remain. In the US, we believe the cost of avoiding a depression and deflation have not been too high. The most obvious cost has been the expansion in the size of the Federal Reserve's balance sheet as a result of three rounds of Quantitative Easing (QE), which appears at this point to be manageable and seems unlikely to cause any significant economic harm to the broad economy. During the time this policy was in place, unemployment halved, the Federal budget deficit returned to more normal levels, financial asset prices soared, the value of the US dollar rose and the US banking system was restored to good health. While many complain about the paltry economic growth accompanying this recovery, so far this seems to have been a small price to pay and perhaps about as optimal an outcome as one could have hoped for in the depths of the crisis in late 2008 and early 2009. While the Fed is justly criticized for QE's distortion of both the financial markets and the proper pricing of risk, the evidence so far suggests it wisely navigated the broad US economy through some very perilous times. Even so, the Fed's job is hardly done. It still must "stick the landing" as it continues to slowly pull back its extraordinary monetary policy accommodation. The lackluster performance of the financial markets recently suggests this may be an ongoing challenge. Perhaps more importantly, it must now also contend with the consequences of the actions of less astute central bankers and other government policymakers around the world.

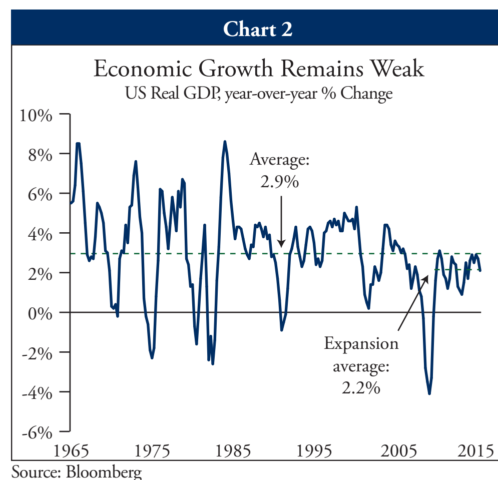


Chart 2

Source: Bloomberg

The European Central Bank (ECB) was late to embrace QE, but has done so with vigor in recent years. As a result, the European economy has been showing signs of improvement. While not all economic reports emanating from Europe are currently moving in the right direction, many are. Moreover, while the level of QE the ECB is putting in place will soon exceed that of which the Fed utilized before ending QE in the Fall of 2014 (Chart 4), the ECB has begun to proceed a bit more cautiously. On balance, like the Fed, the ECB's QE efforts seemed reasonably well-balanced and unlikely to lead to any major economic disruptions. Naturally, QE does distort prices for financial assets and the current prevalence of negative interest rates on many European government bonds are an extreme example of this. Despite these odd shortcomings to the ECB's QE effort, the impact on the overall level of economic activity has been positive, at least so far. As in the US, economic growth still remains below normal, but it no longer seems to be on the verge of collapse.

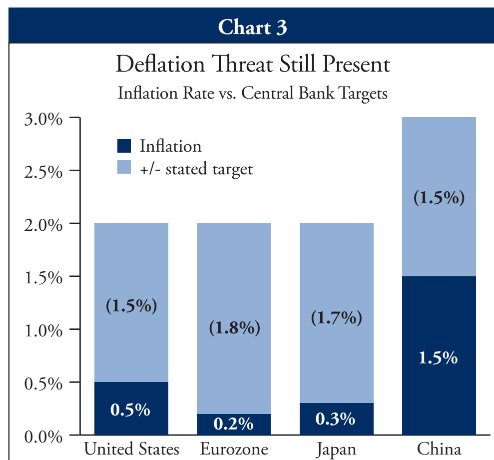


Chart 3

Source: Northern Trust

In Asia, however, policies have been and continue to be implemented which seem likely to cause problems not only for Asia but the whole world. As seen in Chart 4, Japan's QE program has led its central bank's assets to grow almost exponentially relative to the size of the nation's GDP. Moreover, Japan's central bank has not relegated its purchases just to government bonds but has also been an aggressive buyer of other assets as well. At this time, the central bank owns 52% of Japan's equity exchange traded funds. Firms issuing exchange traded funds have been discussing launching new funds since the central bank is running out of securities to buy with their gargantuan QE effort. To many outside observers, it appears the Japanese policymakers' attempts to promote growth and boost inflation are now in a very dangerous spot. Moreover, it is not clear those policymakers are prepared to admit this. Despite the enormity of the QE Japan has put in place, the results have been tepid at best. At this point, it is not clear how Japanese monetary and fiscal policy can proceed in a useful manner. Should investor confidence in Japan's economic policies begin to collapse, the nation could be in for some turbulent economic times and deflation may quickly return. In the end, Japanese policymakers have been struggling for 25 years, mostly with only limited success, to avoid the ramifications of the massive financial bubble created in the country in the late 1980's. But no matter what policy approach has been pursued since the late 1980's, Japan struggles to keep deflationary forces at bay. Since Japan remains a wealthy nation, it may continue to avoid an economic meltdown, but its current policy trajectory is increasingly worrisome.

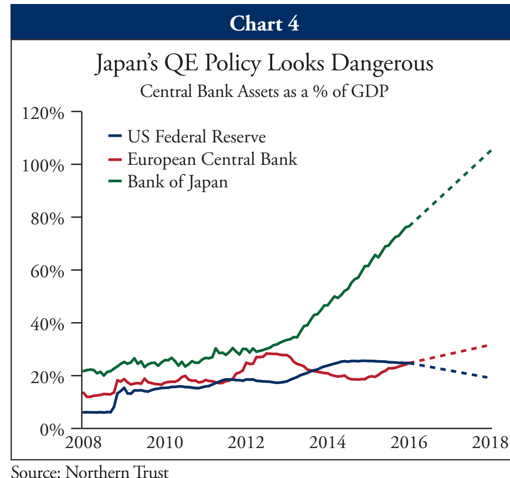
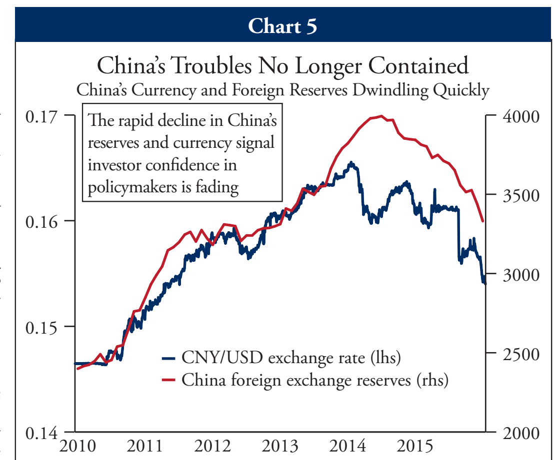


Chart 4

Source: Northern Trust

Of more immediate concern is Japan's Asian neighbor, China. Like Japan in the 1980's, Chinese economic policies, especially since the Great Recession, created a massive debt-fueled economic bubble. The deflationary aftermath of this bubble's bursting is currently playing out globally primarily via commodity prices. Plummeting commodity prices have had far ranging effects throughout the global economy, both positive and negative. Lower oil prices have acted as an effective tax cut for consumers across the globe, helping to prop up otherwise sluggish economic growth. At the same time, low oil prices have contributed to increased tension in the ever-volatile Middle East and have harmed economies in the many countries which are big energy producers, including the US. The biggest potential impact for the global economy would be if China's slowing economy enters into a deep recession. China's foreign reserves are dwindling rapidly as it tries to manage a slow devaluation in its currency (Chart 5). Should China ultimately lose control of its economy and spiral into a chaotic economic downturn, it would unleash further deflationary forces across the globe and the world's central banks may not have enough ammunition left to combat it. Moreover, it could prompt an emerging market systemic banking collapse, which could lead to contagion throughout the world's banking system. Chart 6 highlights the unusually high level of private sector debt in China, which threatens the viability of its banking system as conditions worsen. While economic progress is occurring in the US and Europe, it would be foolish to ignore the grave risks to the global economy still rising in Asia. Much effort has been expended to restore global economic growth and defeat deflation since 2008, yet it remains possible the deflationary threat will yet overwhelm the many attempts to forestall it.



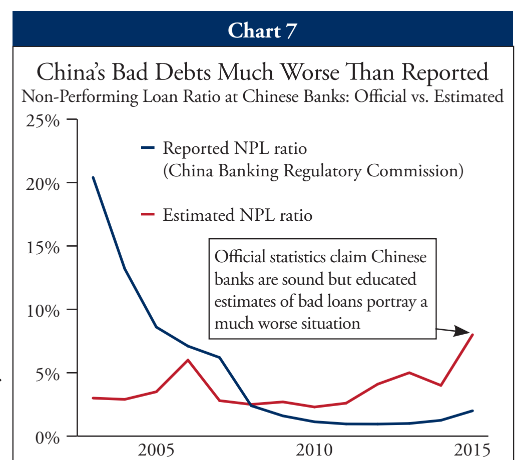
Source: Bloomberg

Source: Thomson Reuters, Credit Suisse

A Closer Look at the Deflation Threat and the Promise of Growth

"We prayed to our God and posted a guard day and night to meet this threat" Nehemiah 4:9

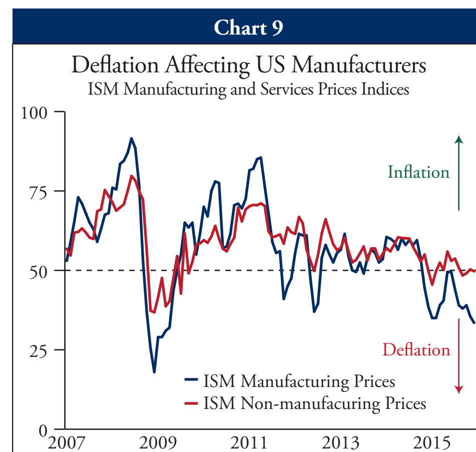
Deflation is almost always the result of over exuberant use of debt. As previously strong economic growth begins to slow and debts associated with hopelessly optimistic forecasts begin to go bad, banks stop lending to protect their balance sheets thereby causing the economy to lurch into a deep recession. During the course of this process, marginal, debt laden businesses are forced to cut prices and lay off staff in order to try to make their debt payments, which they often prove unable to do. Those laid off soon cannot make their mortgage or car payments and the whole ugly trend towards even lower economic growth and falling prices of goods, services and financial assets accelerates. It can happen to a single sector of the economy, such as the energy sector currently. Or it can spread beyond a single sector much like what happened in 2008 when the excessive housing debt quickly spread to the banking system and then the whole global economy. While mild bouts of deflation can be dealt with while avoiding widespread economic carnage, broader and deeper deflation is to be avoided at all costs. Indeed, this is why we have seen central banks around the world engage in such aggressive monetary policies since 2008. In China's case, however, the initial policy response of using a debt financed building and infrastructure boom to thwart the initial threat of deflation just set up the larger deflationary impulses now afflicting the world. We have already seen in Chart 6 the enormous spike higher in private debt in China (public debt has also risen sharply) which has set up the latest deflation threat. Chart 7, however, reveals that estimates of actual Chinese non-performing loans are now spiking higher, which may well trigger a banking system collapse and another, likely larger, deflationary wave around the world and a potentially chaotic economic collapse in China itself.



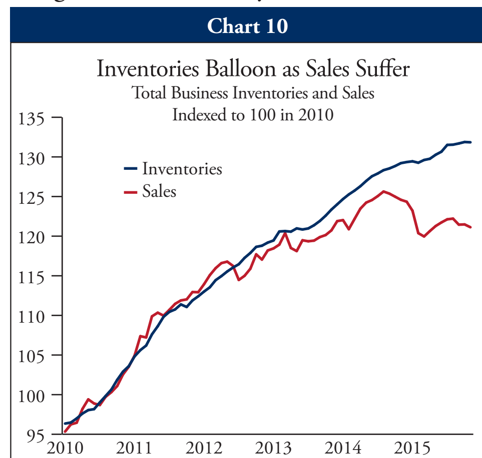
Source: Bloomberg

Source: Markit

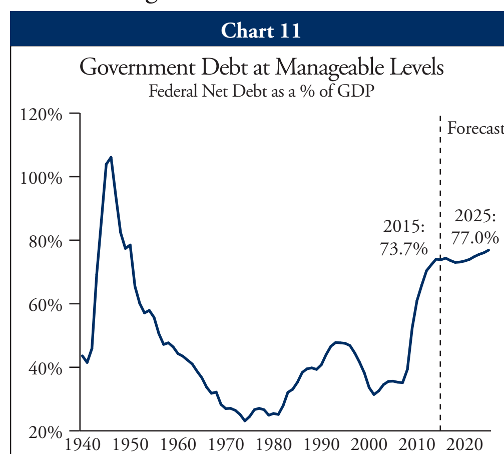
The first waves of deflation from China have been evident for several years. First, precious metals prices began a multi-year decline even in the face of aggressively accommodative central bank policies from the world's major central banks. Shortly thereafter, China's decelerating economy prompted a collapse in industrial commodity prices. Many emerging market economies, equities and currencies, all tightly tied to commodity prices, soon were caught up in this initial China-caused deflationary wave and are now either in recession or nearly so (Chart 8). Energy prices also began to falter about that time with the drop being accelerated not only by rapid supply growth in the US but also by intentional overproduction by Saudi Arabia. Financial markets, sensing these growing risks, began to increasingly favor the safety of the US Dollar, causing virtually every other currency to weaken. As stresses in the global economic system have continued to mount as the initial deflationary wave hit new economic shores, emerging market and high yield developed market debt have begun to reflect the rising risks. While developed market share prices bravely held off these deflationary forces for some time, more recently we have seen equities begin to be overtaken by this initial bout of deflation. Valiant efforts by central bankers certainly helped slow the wave and reduce its height, but its force has nevertheless been relentless. While real economic damage to the developed market economies and financial markets has not been too severe so far, we are not yet convinced a second, stronger wave of deflation arising from China's growing bad debt and potential systemic banking crisis can be avoided. It is simply too early to tell for sure.



Source: Federal Reserve Bank of St. Louis

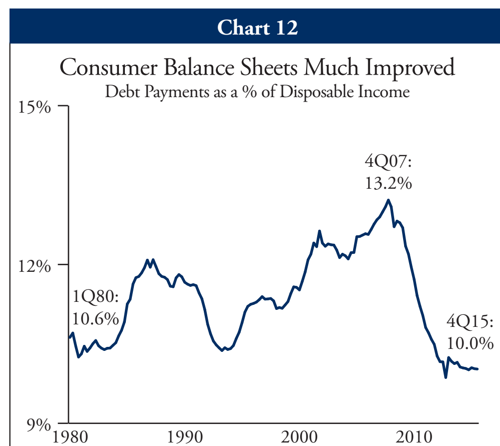


Source: ECRI, Bloomberg



Source: Congressional Budget Office

Up until recently, investors believed China had the ability to prevent its bad debt crisis from morphing into a full scale systemic banking collapse. Unfortunately, Chinese policymakers are losing the confidence of the financial markets, and their own citizens, due to foolhardy regulatory decisions resulting in chaotic activity in Chinese equity and currency markets. As each month brings about greater declines in the nation's foreign currency reserves, investor confidence weakens further. At one point not that long ago, those reserves amounted to roughly $4 trillion and provide the financial markets with an assurance China had the financial wherewithal to manage its bad debt situation. Given the nearly 20% decline in these reserves, however, it is no longer clear China can avoid unleashing another, possibly larger wave of deflation on the world. With central banks having largely exhausted the QE "ammunition" at their disposal fighting the first wave of deflation, developed market economies and financial markets are now more exposed to the possibility of a second deflationary surge from China. While the first wave of deflation aided consumers, the industrial sector of the global economy is already in the throes of a recession. Deflation is already clearly evident in both the US manufacturing and services sectors (Chart 9) as the strong dollar and the collapse in the oil patch have sunk demand and lead to a worrying increase in inventories (Chart 10). Such inventory build-ups can initiate recessionary trends. While a deflationary global recession is not yet a reality, with each passing day the financial markets are, perhaps prematurely, increasingly pricing in just such a possibility.



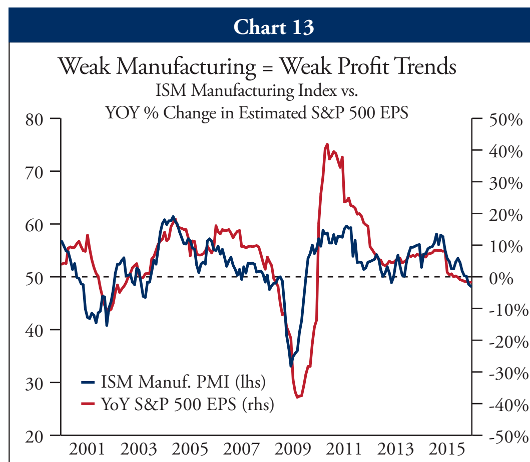
Source: Bloomberg

Despite the relentlessness of the deflationary forces, there is still time for the global economy to grow its way out of this potential threat. While ever increasing debts are menacing China's economy, the situation in the US is quite different. Federal government debt certainly jumped as a result of the aggressive fiscal policy following the Great Recession, but it is projected to remain at a manageable level until at least the middle of the next decade (Chart 11). Consumer debt has actually improved markedly in the US (Chart 12) as consumers learned a lesson we hope they will not soon forget from the 2008 crisis. While relatively small parts of the US corporate sector, namely a portion of the energy industry, are facing debts which may prove difficult to repay, years of high profitability have helped keep corporate balance sheets strong. There is a chance the now financially stronger US consumer will loosen his purse strings and help stimulate economic growth both here and abroad sufficient to blunt the pressure from Chinese deflation. It is now a high stakes game which is close to a critical juncture that may ultimately determine whether serious damage to the global economy and the world's financial markets can be avoided.

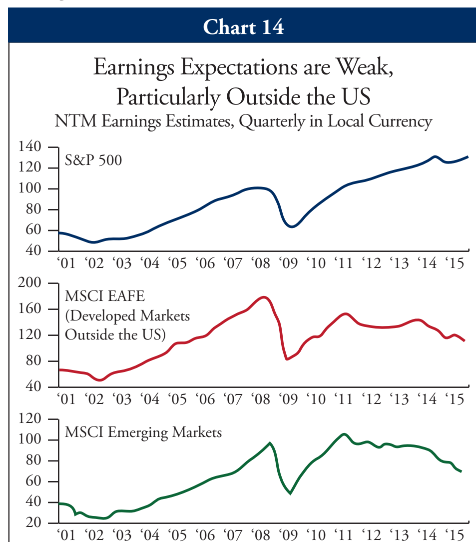
Earnings and Valuations Offer Little Support for Share Prices

"At my first defense, no one came to my support" 2 Timothy 4:16

At the moment, at least in most of the developed world, the broad economy continues to win, if only barely so, the battle between deflationary forces and the economy's natural proclivity to grow. Growth in the consumer sector of the economy has so far been sufficient to offset recession-like circumstances in the industrial sector of the economy. As was the case last quarter, the big unresolved issue for the markets is if the deflationary winds currently negatively impacting manufacturers will blow over the consumer sector or will the growth in the consumer sector strengthen to the point where it will beat back the deflationary threat. While US economic growth is still positive, estimates for GDP growth in the fourth quarter of 2015 have been falling fast and some are now as low as just 0.5%. To us, it seems we are now very close to a critical turning point in the battle between deflation and growth and the victor will determine the course of the markets in 2016. While growth is still ahead, it seems to be losing momentum quickly, thus the big market sell-off so far in 2016.

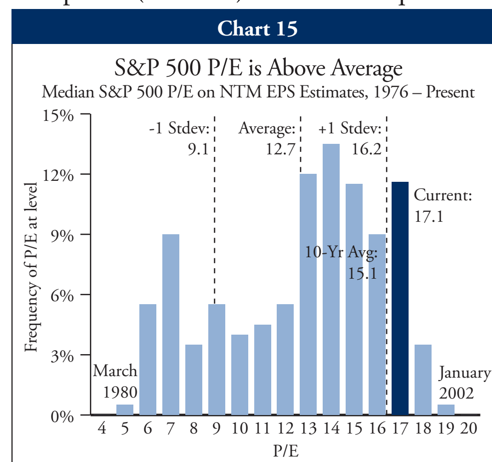


Source: Bloomberg



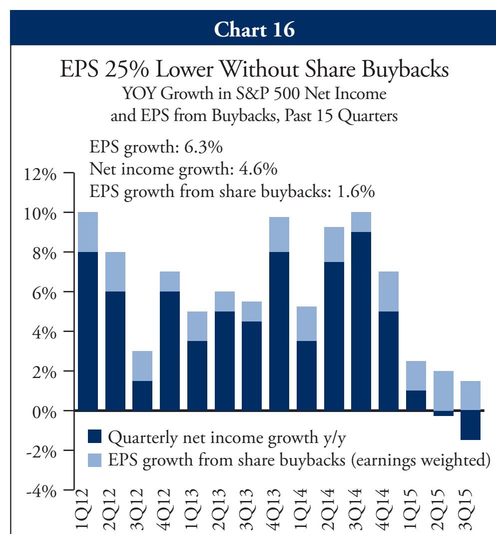
Source: JP Morgan

For equity investors, if the industrial sector remains depressed even while the overall economy continues to grow slowly, that is still problematic. Historically, there is a tight correlation between the ISM Manufacturing Index and progression of US corporate profits (Chart 13). With fourth quarter US GNP slowing to a trickle and fourth quarter S&P 500 EPS already expected to be in negative territory, earnings growth trends may not meet expectations in early 2016. As US companies begin commenting on expected 2016 earnings prospects, we suspect managements will err on the side of caution in view of the current circumstances. While US corporate earnings expectations have been under pressure all throughout 2015, largely due to the massive earnings shortfalls in the energy sector, foreign corporate earnings expectations have been falling for many quarters (Chart 14). Clearly, these negative earnings trends are not an encouraging situation as strong earnings growth expectations are what most reliably generates capital appreciation for investors.



Source: Goldman Sachs

While that is true, there have been some occasions when share prices rose even in the midst of weak corporate earnings growth. While not normal, it can and has happened. Typically, such an outcome is possible when interest rates and inflation are falling from a high level and valuations are at below average levels. Falling inflation and interest rates signal investors better times are ahead, thereby allowing valuations to expand as investors begin to anticipate stronger future earnings when economic conditions improve. In the current situation, however, the Fed has just begun, perhaps prematurely, to raise interest rates and valuations are already at an above average level (Chart 15). Accordingly, outside of new government interventions seeking to drive financial asset prices higher, it would be unreasonable to count on higher valuations to drive share prices higher in 2016. Given the Fed is currently seeking to normalize its monetary policy after an extended period of extraordinary accommodation, a decision to reinstate QE would likely come only after a significant share price decline. Therefore, higher share prices in 2016 will likely be achieved through earnings growth. Most forecasters are projecting earnings growth in 2016, but investor confidence in these always optimistic early earnings projections is even lower than normal.



Source: Deutsche Bank

Corporate earnings in recent years have actually grown only about 75% as much as reported as share repurchases have accounted for roughly 25% of the S&P 500's earnings growth (Chart 16). As deflation increasingly muddies the economic outlook, we suspect share buybacks will begin to retreat from current lofty levels as companies seek to maintain balance sheet strength. If so, future earnings growth could be meaningfully restrained, thereby presenting another challenge for stocks.

Risk of a Bear Market Keeps Growing, Therefore We Remain Cautious

"Like a bear lying in wait… he dragged from the path and mangled me" Lamentations 3:10-11

As we expected, 2015 was a rough year for global investors. Many of the concerns we had when we moved to position our clients' portfolios more defensively came to pass. Earnings growth was essentially non-existent in the US during the year and also declined outside the US, with the emerging markets suffering the most. China's problems, which we have long been focused on, finally started to emerge in a way that the Chinese government could no longer fully contain. Indeed, their actions in the past year seemed particularly inept, undermining investor confidence that they were up to the tall task of slowly deflating the Chinese economic bubble. Unfortunately, as we have detailed in this commentary, the trends in earnings, valuations, financial system stability and geopolitical tensions are all currently heading the wrong direction. These trends have been worsening for months, even while equity markets paradoxically rose last October. The historically bad equity market start to 2016 is an apparent correction of that earlier odd equity market behavior. While we had hoped we could have been in a position to take a more optimistic view of the markets by now, the facts do not allow for it yet. In our view, there is a growing risk the current volatility will ultimately end in a bear market (bear markets occur when share prices fall more than 20% from the previous high). Aided by the Fed's manipulation of share prices via QE, the current bull market is now the fourth longest on record at 81 months and has already greatly exceeded the average appreciation during a typical bull market (Table 2).

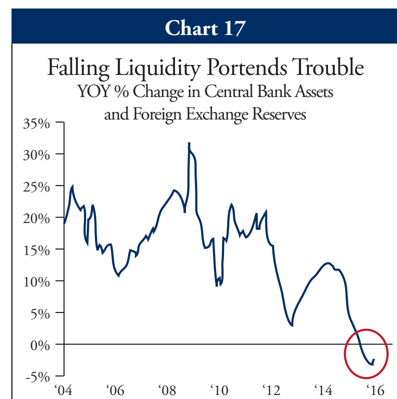
Table 2

Current Bull Market is Old and Extended
Dow Jones Industrial Average – Bull Markets Since 1900

Bear low	Decline into low	Following bull gain	Length (months)
1903	-47%	145%	26
1907	-49%	90%	23
1914	-29%	111%	27
1917	-44%	82%	23
1921	-47%	497%	98
1932	-90%	94%	2
1933	-38%	121%	12
1934	-23%	128%	35
1942	-53%	129%	53
1949	-24%	223%	89
1957	-20%	75%	50
1962	-27%	86%	44
1966	-26%	33%	27
1970	-36%	67%	32
1974	-46%	76%	21
1978	-27%	38%	40
1982	-25%	251%	63
1987	-37%	73%	34
1990	-22%	295%	94
1998	-22%	56%	17
2002	-38%	95%	61
2009	-49%	220%*	81*
Average	**-37%**	**136%**	

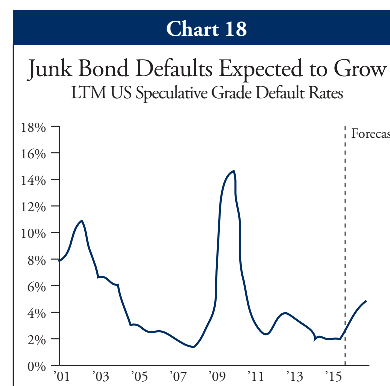
*Bull Cycle 2009 - December 2015

Source: UBS Technical Research

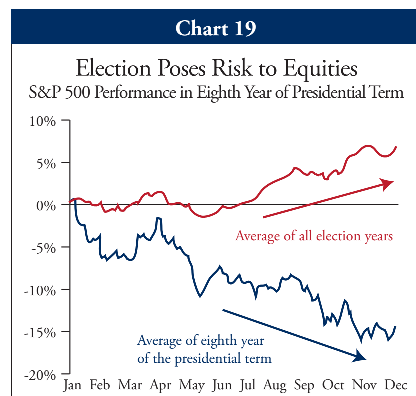


Source: BofA Merrill Lynch, Bloomberg

Our concerns are heightened by declines in some measures of global liquidity (Chart 17). Liquidity is the life blood of the financial markets. The more liquidity coursing through the veins of the markets, as the various QE programs have shown, the better financial assets are likely to perform. Of course, the opposite is true as well. Moreover, as liquidity growth slows or, worse yet, begins to retreat, the weak links in the financial markets begin to be exposed. Normally as liquidity recedes frauds come to the surface, nations and companies with weak balance sheets are exposed and whole sectors, such as the energy sector currently, can go from boom to bust in the blink of an eye as access to capital fueling the boom quickly evaporates. We suspect there will be many small energy companies defaulting on their obligations before too much longer and the viability of banks specializing in lending money to this sector will also come into question before 2016 ends. Short of a war in the Middle East, which would disrupt oil supplies from the region, it is hard to see how this will be avoided. While such a scenario should not be much of a surprise to the markets, if defaults spread into other junk bond, the markets could get rattled. The default rate on speculative debt has already begun to rise from a still very low level but most prognosticators believe it will continue to move higher (Chart 18). As a result, we have already seen credit spreads on junk bonds widen significantly as investors, who earlier crowded into this space in search of high yields, have begun to flee funds investing in speculative debt. These widening spreads will undermine liquidity to those companies who need it most and will likely trigger more defaults. More defaults means wider spreads which means less liquidity and even more defaults. It usually takes a while for this self-reinforcing trend to end.



Source: Citi Research, Bloomberg, Moody's



Source: UBS Technical Research

Adding to the market's woes in 2016 is the US presidential election. Given the candidates, uncertainty around the election is at an unusually high level. History tells us even in a normal election after an eight year presidential run, share prices typically struggle as questions about major policy changes remain open (Chart 19). All things considered, caution remains warranted in early 2016. Governments will no doubt seek to intervene in the markets again to forestall declines and speculators will respond in kind by jumping back in, even if it is not justified by the facts. Still, the risk of a bear market is too high in our view and, for now, we will continue to seek to achieve small gains while remaining tactically guarded.

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, Cognizant, and one we avoid, Amazon.com. Cognizant is a holding in some of our Stewardship Partners portfolios while we actively avoid ownership in Amazon.com 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 – Cognizant – Passion, Integrity and Charity

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

Cognizant Technology Solutions, founded in 1994 as the technology arm of Dun & Bradstreet, primarily provides information technology consulting and technology services but also offers outsourcing services as well. The company's core competencies include technology strategy consulting, complex systems design, enterprise software package implementation and maintenance, data warehousing and business intelligence. Using these talents, Cognizant assists global corporations enhance productivity by ensuring vital business functions work faster, cheaper and better. By using Cognizant's ability to conceptualize, architect and implement new and expanded capabilities, their clients can transform their current business model and take their business to a higher level of success. Cognizant is headquartered in Teaneck, New Jersey but operates more than 50 offices employing nearly 220,000 highly skilled workers around the world. Known for its staff's deep industry and business process expertise, Cognizant has become one of the world's foremost business consultants. A little more than two-thirds of Cognizant's over $10 billion in annual revenues is derived from its operations focused on financial services (42% of revenues) and healthcare (26% of revenues). Manufacturing, retail and logistics also is a large sector for Cognizant accounting for a further 20% of its annual revenues. The majority of its development and delivery professionals as well as its technical professionals are located in India where skills are high and wage costs are lower. Reflecting Cognizant's customer satisfaction, 97% of its 2014 revenues came from clients who were customers in 2013. Cognizant's strategy is to develop long term relationships with their clients with an eye towards creating recurring revenues. The company's success indicates these strategies have worked and are continuing to help Cognizant create growth in long term shareholder wealth. Not surprisingly, the company has been listed on Fortune Magazine's list of "Most Admired Companies in the World" for seven straight years.

Such success is not something which happens by accident. The culture of the organization is the bedrock upon which long term success is built. As a consultant seeking to help other companies succeed, Cognizant's own success speaks well of the commitment to apply the same principles and values to its own business. The foremost value at Cognizant is an unrelenting focus on the customer. Whether a job is large or small, Cognizant associates are all aware of the expectation they will assure customer satisfaction by delivering results of the highest quality. Passion is also a core value at Cognizant with the company striving to imbue its workers with a can-do attitude and enthusiasm for the task at hand. They also seek to empower employees with end-to-end ownership of a project as well as responsibility, accountability and recognition. Collaboration among the company's staff to produce excellent results for clients is another key factor in Cognizant's success. The company also embraces transparency as one of its core values believing open and honest communication always leads to the best results for clients. Finally, Cognizant places a high value on integrity in all they do. Integrity means always doing the right thing and it is something the company communicates to its associates should never be compromised. The company states that it has a zero tolerance policy for those who might bend the rules or looks for shortcuts in their work. The Cognizant Code of Ethics requires full compliance with a long list of guidelines meant to steer employees towards the right decisions, thereby preserving its cultural values and upholding its standards of business conduct, all applicable laws and any regulations governing the company's work. Additionally, the company actively monitors and enforces its zero tolerance policies with strong internal controls. The success of these internal controls is evident in an audit performed by the US Department of Labor (DOL) which looked at how the company complied with H-1B visa laws over a seven year period. The audit indicated Cognizant had achieved a compliance rate of 99.7%, which the DOL described as setting a high standard for others in industry to match.
As a consultant with nearly 220,000 employees, Cognizant knows quite well the benefit, indeed the necessity, of treating is staff well. Unlike an industrial company whose assets are at least partly factories and machinery, Cognizant's assets are primarily its people and its reputation. Each day, these assets walk out the door to go home and it is critical that Cognizant maintain excellent relationships with those associates who have worked

hard to help the company achieve its many successes. It does so in many ways. First, it attracts and maintains talented staff via the culture of excellence it has created. By remaining on the leading edge of innovation in the technology space and in the realm of corporate management and employee relations generally, the company has positioned itself well. The company also emphasizes its desire to proactively grow the skills of its employees. Due to its efforts in this area, Cognizant has been ranked #1 in the US by the Association of Talent Development for the past two years. It is the first company in the 70 year history of the Association of Talent Development to win the award two years in a row. One of the reasons Cognizant has won this award is its Cognizant Academy, which was established to provide individual learning plans to promote continuous career progression. Naturally, the company also supplies its staff with an array of attractive benefits. Cognizant indicates it offers a competitive range of benefits, which can be customized to an employee's own particular needs, including insurance coverage for employees and their dependents and a variety of programs aimed at maintaining the employee's well-being. Included among these are retirement plans and pension schemes, depending upon the location of the employee. Annual incentive based financial awards are also given based on an individual associate's performance relative to the goals established for the employee. Additional payouts are awarded to those whose work was clearly "beyond the call of duty" and to those who were participating in individual business unit incentive programs. The company has also put in place a program to help those who have gone beyond the call of duty for our country. Cognizant has instituted a program it calls "CAMO to Cognizant" which focuses on offering military veterans a special opportunity to become an associate at the company. The plan offers a holistic approach and special training for veterans as they join the company.

Cognizant is also willing to share its success with others in the global community it serves. It does so through a wide variety of company sponsored programs, the Cognizant Foundation and via the many volunteer hours its employees contribute to help others. Cognizant's "Making the Future" initiative seeks to spark an interest in science, technology, engineering and mathematics (STEM) education among young people in the United States in order to help reduce the talent deficit in these fields. Since 2011, the company has made grants totaling more than $7 million to STEM causes. These grants have helped thousands of young students, particularly minorities and girls, to have access to teaching they would not have otherwise received. The company also partners with children's and science museums, 4-H Clubs, Boy's and Girl's Clubs and schools to provide after school and summer programs for thousands of children. In 2014 they reached over 5,000 children via 33 separate programs in 22 states. The Cognizant Foundation has provided funding for 17 educational projects, 14 healthcare initiatives and 9 non-profits seeking to assist the disadvantaged and disabled youth. Moreover, Cognizant employees dedicated over 300,000 hours of volunteer service to charitable causes around the world. Cognizant has also excelled on the environmental front. Among many other successes, the company reduced its per capita carbon emissions by 51% since 2008 and has planted more than 120,000 trees around the world.

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

The Bad – Amazon.com – Abortion and Pornography

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

Amazon.com has become rather ubiquitous in American culture. The company's retail success is killing off large swaths of retailers in not only the US, but also all over the world as its easy to use website, low prices and fast shipping are attributes which brick and mortar retailers simply cannot match. Even discounter Walmart seems to now be succumbing to Amazon.com's wide reach with its recent announcement of 269 store closures. Many shopping malls are shutting down and others are being repurposed into medical facilities or other uses as younger, tech savvy buyers begin to dominate the retail landscape. Amazon.com's reach continues to grow beyond just retail as it looks to expand into shipping and other businesses. Its domination is growing so rapidly that it must be approaching a point where the company will begin to be scrutinized by government regulators for distorting the marketplace with anti-competitive behavior. One odd feature of Amazon.com's corporate history is its leadership foregoing profits entirely until just recently as it reinvested everything it could to extending its retail footprint. Even now, its profitability remains microscopic with a net margin in the most recently reported quarter barely registering as positive. Nevertheless, Wall Street has adored the company and it was one of the FANG stocks we noted earlier in this commentary that performed very well in 2015. It currently trades at a stunning 105 times what it expects to earn in 2015. While that is disconcerting for shareholders, BRI investors would not own the stock because in its megalomaniacal effort to dominate the retail business, it lost its moral compass. Visitors to Amazon.com's website can purchase drugs used to produce an abortion (Plan B One Step) and a variety of pornography. In its book section, there is a distinct category for "Erotica". It also has a section which sells media products targeting homosexuals. While consumers can use the website without ever purchasing objectionable items, shareholders cannot avoid profiting from the sale of these items.

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

Our Ultimate Goal – Funding the Lord's Work

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

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

Featured Ministry – Every Home for Christ

"He said to them, 'Go into all the world and preach the gospel to all creation.'" Mark 16:15

Every Home for Christ was founded in 1952 by a young pastor from Canada, Jack McAlister. McAlister's initial vision was to provide missionaries with tracts to be distributed as part of their work. Soon, the organization shifted its strategy to trying to visit every home in a given area to share the gospel and related literature. Since 1953 Every Home for Christ states it has visited 1.7 billion homes worldwide and shared the gospel 3.6 billion times! This has been accomplished through both the staff of Every Home for Christ and myriads of volunteers who are passionate about sharing their faith in the area where they live. The ministry has reached roughly 200 nations and has recorded 156 million decisions to accept Christ via written responses returned to their offices. In areas where there is not a local church to direct these new believers to, Every Home for Christ sets up what they call "Christ Groups" to help disciple the new believers. Over 271,000 such groups have been formed over the years. In 1988, Dick Eastman was appointed to lead Every Home for Christ and he still retains this leadership post today. In 2014, the ministry reached almost 100 million homes, distributed more than 190 million pieces of gospel literature, had nearly 17 million people respond to the gospel message and started nearly 26,000 Christ Groups.

The ministry's mission statement is as follows, "Every Home for Christ exists to serve the Body of Christ in equipping and mobilizing Christians everywhere to actively participate in taking the Gospel of Jesus Christ to every home in the whole world, adding new Christians as reproducing members of the Church to see the literal fulfillment of the Great Commission". As indicated in the statistics above, Every Home for Christ is achieving what it has set out to do. They also hold onto three "Unalterable Convictions": 1.) The Great Commission must be taken literally (Mark 16:15), 2.) Without unity, finishing the task of global evangelization is impossible (John 17: 21-23), 3.) Prayer, alone, will remove every obstacle that stands in the way of fulfilling the Great Commission (Mark 11:22-23). Every Home for Christ's faith that these convictions are true has clearly led to the ministry being blessed over the decades since its founding. While the ministry is focused on evangelism, it is impressive that the ministry also provides discipleship opportunities and materials. Its "Be Fruitful and Multiply" (BFAM) model and curriculum helps guide new believers into a lasting and deep relationship with their Lord while also encouraging these new believers to become evangelists themselves.

Every Home for Christ's dedication to its very important mission is evident in what it has achieved over many years of service to the church. Moreover, it has managed the financial affairs of its ministry well, achieving a five star rating from MinistryWatch.com for financial efficiency. Accordingly, Every Home for Christ is worthy of your consideration for 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 – National Christian Foundation

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

The National Christian Foundation (NCF) is the country's largest community foundation devoted to helping Christian donors give wisely to further the Gospel of Jesus Christ. Overall, it is the US's eighth largest charity. Founded in the early 1980's by current board member Terry Parker along with Ron Blue and Larry Burkett, NCF and its affiliates have facilitated over $6 billion in gifts to tens of thousands of ministries. Currently, it is giving nearly $1 billion annually to Christian ministries. Under strong leadership from CEO Bill Williams and President David Wills, NCF has greatly expanded its offerings in recent years. Given the excellent services NCF provides to Christian donors, it is likely its impact on Christian ministry will continue to grow rapidly in the years to come. NCF houses thousands of separate donor-advised funds and has assets of well over $1 billion. Grants from funds overseen by NCF are always aligned with the foundation's Christian worldview. With hundreds of employees working out of 29 local offices around the nation as well as the headquarters near Atlanta, GA, NCF has assembled a staff of charitable experts that is second to none.

NCF's services to Christian donors include fund accounting, administration, legal advice and access to professionally-managed portfolios. Such services provide donors with an alternative to setting up their own private foundation, which can be costly, time-consuming and subject to certain limitations. NCF also has the capacity to handle complex gifts such as real estate and closely-held stock. Additionally, NCF can provide philanthropic counseling to major donors and also will provide assistance to communities that want to establish a local community foundation.

Among the many Christian donors who have already taken advantage of the worthwhile resources available from the National Christian Foundation include Rusty and Carol Leonard, the founders of Stewardship Partners.

Knowing Jesus Christ as Your Lord and Savior

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

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

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

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

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

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