Stewardship Partners Market Commentary

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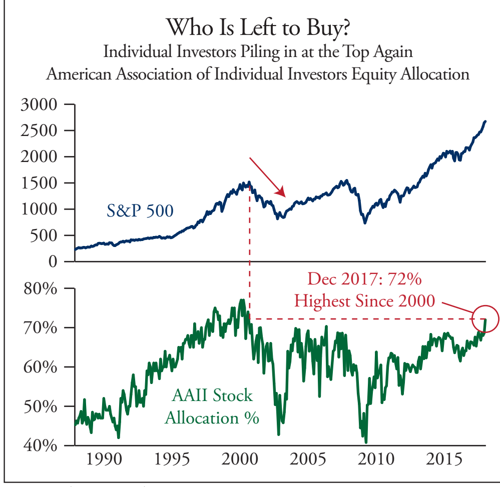
The "Nothing Matters" Market - All Gain and No Pain = An Unhealthy Market

"But godliness with contentment is great gain." 1 Timothy 6:6

2017 will go down in investment history as one of the most remarkable years ever. Investing normally involves both risk and return, but in 2017 very good returns (Table 1) were coupled with an unprecedented absence of risk. The most the S&P 500 ever fell from its high during the year was 2.8% and it continually hit new record highs. But it did so in the most boring fashion as there was little volatility on the upside either. Equities ground slightly higher most days and rarely fell. Neither good news or bad news seemed to have any meaningful impact on share prices, leading us to give it the nickname the "Nothing Matters Market". Multitudes of records were set in 2017 with regard to this lack of volatility in equity trading. VIX, the primary measure of stock market volatility fell to new all-time lows and stayed low for the whole year. Bond prices also set records for a lack of volatility even though the Federal Reserve raised interest rates there times during the year. Given the strong returns combined with the absence of volatility, 2017 was about as good as a year gets for investors. It was all gain and virtually no pain. Of course, when investors experience such an unprecedented riskless run, it creates an unhealthy market since human nature quickly kicks in and many begin taking excessive risk, just as doing so is riskier than ever. Chart 1 highlights investors now have the highest allocation to stocks since the tech bubble in 2000. With just about all technical and fundamental market measures showing equities are well overdue for a setback, we are afraid many will be soon be reminded markets normally go down as well as up, and often do so violently. With complacency among investors unusually high, it will not take much to cause a short-term sell-off. Indeed, we could even see stocks falter without a good reason as the market effectively runs out of new buyers to push prices higher. As Chart 1 reveals, investor enthusiasm for stocks is now very excessive and that never ends well.

Chart 1



Source: The Lyons Share

Table 1

4Q17 Total Returns

US Indices	4Q17	YTD	5y Ann
S&P 500	6.6%	21.8%	15.7%
S&P 500 Value	6.3%	15.4%	14.6%
S&P 500 Growth	6.8%	27.4%	16.5%
NASDAQ	6.5%	29.6%	18.8%
S&P 400 (Mid Cap)	6.3%	16.2%	15.8%
S&P 600 (Small Cap)	4.0%	13.2%	16.5%
Treasury Bonds	0.1%	2.3%	1.3%
High Grade Corp. Bonds	1.2%	6.4%	3.7%
High Yield Corp. Bonds	0.5%	7.5%	6.5%
Gold	1.8%	13.1%	-6.0%
Global & International Indices			
MSCI World	5.5%	22.4%	12.2%
MSCI EAFE	4.2%	25.0%	9.3%
MSCI Euro	0.4%	26.5%	10.0%
MSCI Far East	8.3%	25.9%	11.8%
MSCI China	8.5%	24.0%	12.4%
MSCI Japan	7.6%	54.1%	12.6%
MSCI Emerging Markets	7.4%	37.3%	5.5%
US Economic Sectors			
Energy	6.0%	-1.0%	2.2%
Materials	6.9%	23.8%	12.8%
Industrials	6.1%	21.0%	17.6%
Consumer Discretionary	9.9%	23.0%	18.1%
Consumer Staples	6.5%	13.5%	12.9%
Health Care	1.5%	22.1%	17.6%
Financials	8.6%	22.2%	19.6%
Information Technology	9.0%	38.8%	19.5%
Telecom	3.6%	-1.3%	6.3%
Utilities	0.2%	12.1%	12.0%

Source: Bloomberg

While we can forecast with absolute certainty share prices will fall in the future, deciphering exactly when this will occur is notoriously difficult. Once the market enters into a bubble, all rationality temporarily disappears and sensible investors can look foolish for a time. Some indicators reveal the US equity market has risen to a point where investor exuberance rivals that seen at the peak of the biggest US stock market bubble of all time in 2000, there is no guarantee the "Nothing Matters Market" will not exceed the excesses seen during the internet bubble. Indeed, on some measures, it has already done so. Even during the internet bubble, the S&P 500 never rose for 14 months in a row. In fact, it has never done this ever before as a 12 month streak of positive returns was the previous record. 2017 was also the first time ever the market rose every month in any year. Notably, the S&P 500 has also risen in every month since President Trump was elected. Clearly, President Trump's pro business, anti-regulation and lower tax approach to governing has had a positive impact on the market. The President's unique personality may have dramatically increased volatility in Washington, DC, but his economic policies have been welcomed by, and have initially had a calming effect, on investors. Similar good investment results have been seen all over the world as the global economy strengthened during 2017. The current global economic expansion is highly synchronized with no region being left behind. As of yet, there have been few signs of major economic imbalances emerging which would threaten the current rosy scenario, but investors would be wise to pay close attention to inflation trends as economic resources, particularly in the jobs market, are near full utilization. Rapidly rising inflation could hurt the financial markets as wages increase.

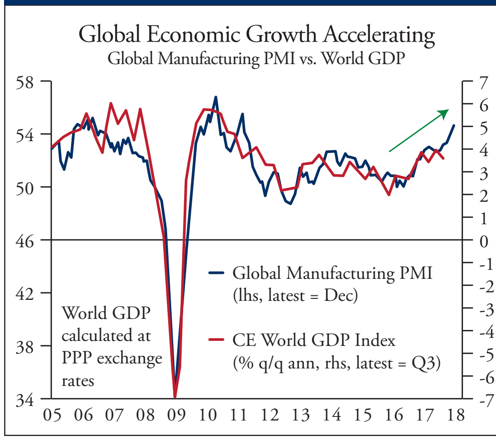
At Stewardship Partners, we had a great first half to 2017, leading us to reduce risk in our portfolios. Our strategy for success in the second half of 2017, however, was hurt when the FDA delayed approving a key drug for our largest holding from late in the year until early 2018. As a result, some portfolios ended up trailing the indices by the end of the year. We suspect what limited our results in late 2017, however, will reverse in the early part of 2018, potentially leading to Stewardship Partners getting off to strong start again this year, even if the market ultimately weakens as we expect it soon will.

The Global Economy Looks Great But Risk of Inflation Matters

"The greedy stir up conflict, but those who trust in the Lord will prosper" Proverbs 28:25

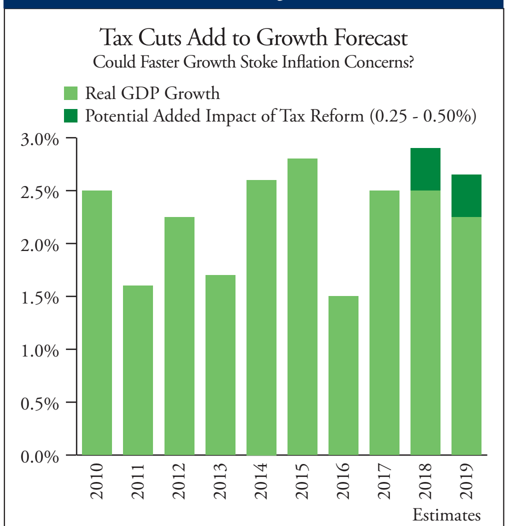
After many years of slow, deflationary growth leading to extraordinary measures from the world's central banks to keep the global economy from stumbling back into recession, economic growth is now accelerating even as monetary policy is finally beginning to slightly tighten. Chart 2 highlights the close connection between the Global Manufacturing Purchasing Managers Index (PMI) and subsequent global GDP growth and the trend is very encouraging. Spurred by stronger growth in the US and even long moribund Europe, the global economy now looks healthier than in a very long time. It seems to have finally entered into a period where further growth may be accomplished even as monetary stimulus is slowly removed. A few years ago, just the threat of the removal of Quantitative Easing (QE) from the US central bank led to what is referred to as the "Taper Tantrum" in the financial markets. Now, in recognition of this revitalized global economy, and even with QE reversing into Quantitative Squeezing (QS) (the world's central banks may all be reducing QE policies as early as the first quarter of 2018), the equity markets are regularly rising to new record highs. Confidence in future economic growth is high and not even major changes in monetary policy can seemingly dent it.

Chart 2



Source: Capital Economics

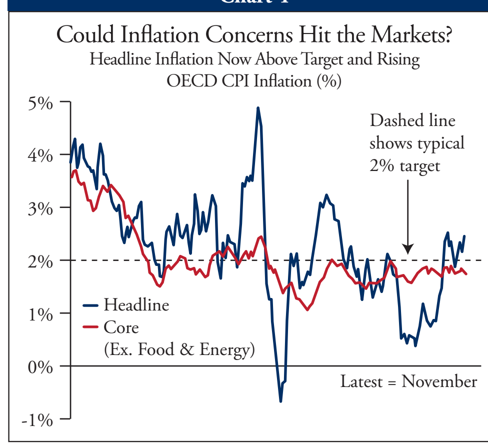
Chart 3



Source: LPL Research

Helping to propel that confidence has been President Trump's economic agenda. The Trump administration's strong efforts to roll back regulatory impediments to business activity have certainly contributed greatly to the growing optimism about the economy's future growth potential. But Trump's success at getting a tax reform bill through Congress has provided the biggest boost to consumer and business confidence alike. The boost to economic growth is actually not as enormous as many might believe (Chart 3) given the constant hype about the bill during most of 2017. Nevertheless, both consumers and corporations will benefit significantly from the new tax law although the Federal budget deficit will now be even larger in the years ahead. The many companies granting special bonuses to employees, as well as increasing wages, clearly will have a positive impact on 2018's economic growth and may have been underestimated by economists.

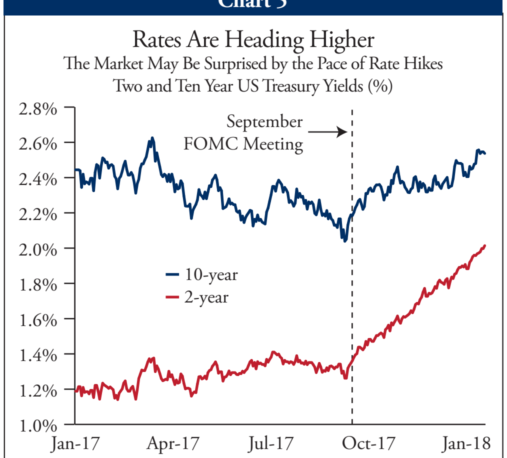
Chart 4



Source: Capital Economics

In many ways, however, the Trump tax cut is the wrong economic policy for the times. With the global and US economy already cruising towards a higher growth path additional fiscal stimulus was not really needed. The more appropriate fiscal policy change in 2018 would have been to raise taxes to help pay off the very sizable debt incurred during the Obama years when huge deficits were incurred to help the US economy break out of its deflationary spiral following the Great Recession. By instead pursuing significant tax cuts, the Trump administration could well be promoting an earlier than expected return more rapid inflation. Chart 4 shows OECD headline inflation numbers are rising quickly and have already surpassed the Federal Reserve's 2% goal. With the nation already at or very near to full employment levels, the extra fiscal stimulus from the tax cuts may jump start inflation and spur the Fed to raise rates faster than the markets currently anticipate. We see this as one of the biggest risks in 2018.

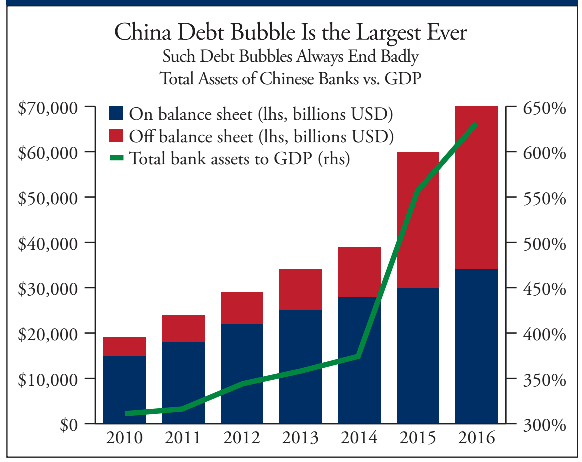
Chart 5



Source: Thomson Reuters and Capital Economics

Already, interest rates are rising across the maturity spectrum (Chart 5). The Fed raised interest rates three times this year but the level of interest rates is still likely too low given the strength of the economy and the fiscal stimulus from the tax cuts. Currently the Fed has signaled its intention to raise rates three more times in 2018, but we would not be surprised if it finds it needs to do more than this and more quickly if inflation pressures rise more rapidly than currently expected. Certainly, rising rates are not helpful to the bond market and the higher interest rates rise, the greater competition bonds offer to equities due to the higher yields. So, while the global economy is growing in a neatly balanced manner presently, do not be surprised if surprising inflation pressures lead to the Fed implementing a much more hawkish stance and thereby roiling the markets in 2018.

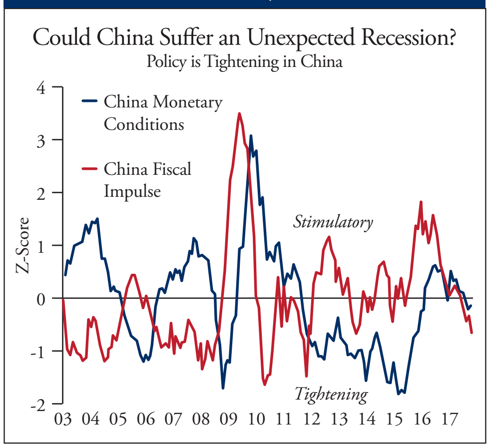
Chart 6



Source: Crescat Capital

As shown above, a stronger global economy has already started to push inflation and interest rates higher. Exactly how this plays out from here, however, will determine whether or not the markets will suffer a meaningful setback. If the trend towards higher inflation accelerates too rapidly, the Fed and other central banks will feel it imperative to cut this advance in prices off at the pass before it becomes a more serious problem. With the economy running too hot, the Fed, as well as potentially other global central banks, will worry less about causing a recession by increasing interest rates rapidly and more about losing control of prices. On the other hand, if inflationary forces develop more slowly, central banks may well be able to adapt current monetary policies more gradually to contend with a rising price level without disrupting the markets or raising concern among investors that it is overreacting. We would not be surprised if inflation, and the Fed's reaction to it, became one of the central themes in the financial markets in 2018 leading to higher levels of financial market volatility than in 2017.

Chart 7



Source: Topdown Charts

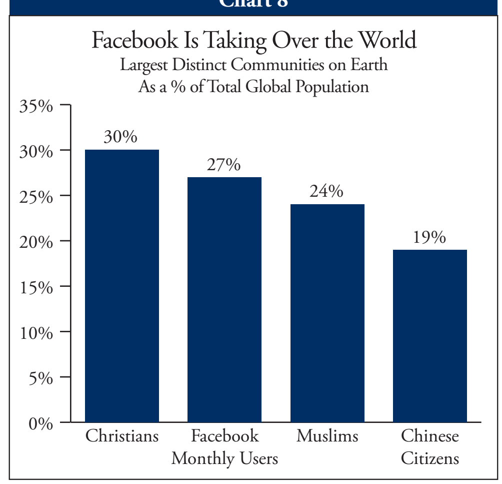
Our other constant concern is China. China has grown extremely rapidly in part by utilizing an epic and worrying amount of debt (Chart 6). Such an explosion in debt has always ended badly for other countries. While its economy also seems to be progressing well at the moment, we are always concerned the Chinese government may one day confess to the falsification of its economic data, thereby revealing a crisis of major proportions. We are quite certain China does publish false information about its economic activity. In fact it has admitted as much in the past. What we don't know is by how much and how consequential it might be to the global financial markets if the Chinese leaders were finally forced to confess their sins. Some current measures of Chinese economic growth by economists seeking to gain a more accurate picture of what is actually happening in the country suggest growth is again less than the government claims. Moreover, both monetary and fiscal policy in China is tightening at this time, thereby promoting weaker economic growth (Chart 7). Should the politicians ever lose control of the Chinese economy and the truth about its size and debt ever come out, it could prove to be an unexpected shock for the world's financial markets. Meanwhile, if China actually slips into a recession in the short term, it could also rattle the world's financial markets. Due to the lack of transparency in the Chinese economy, wise investors will always pay close attention to developments there.

Could Another Internet-like Technology Boom Soon Matter a Lot?

"'For I know the plans I have for you,' declares the Lord, 'plans to prosper you and not to harm you.'" Jeremiah 29:11

Most readers of this Commentary will clearly remember the wild time in the late 1990's when equities were hyper-volatile, mostly to the upside, as the startling promise of the internet-based economy became apparent to investors. Nearly two decades later, the promise of the internet revolution has come to fruition. While many of the companies selling at ridiculously high valuation multiples in 1999 quickly disappeared, others such as Google, Amazon and Facebook have enjoyed stunning success. These companies, among others, have come to dominate the global economy. One indication of this dominance is seen in Chart 8 where the number of Facebook users now amounts to almost the number of Christians in the world! Latecomers to the internet revolution, such as Uber, Bitcoin and Airbnb, have also grown into massive companies by radically disrupting the economic landscape as indicated in Chart 9. Tremendous investment returns were earned for those investors who were able to identify the winners and avoid the losers early in the internet's development.

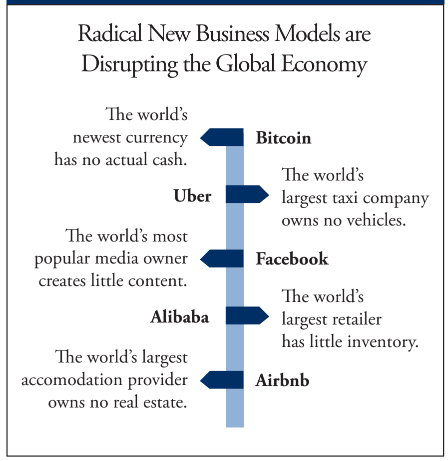
Chart 8



Source: Pew Forum

Based on measures of investor complacency and other technical readings, which we will highlight later in this commentary, the current market also resembles the latter part of the internet bubble, which suggests the short term outlook for equities is far riskier than normal. While valuations are not yet as extreme as during the height of the internet bubble, they are still significantly above average thereby indicating a greater than normal risk of loss for investors. In our view, however, the current structure of the market is one more set up for a normal market correction rather than a massive crash as seen in 2000 or 2008. The fundamental backdrop of a growing global economy and increasing corporate earnings, along with the absence of obvious significant risks to the banking system, make a crash of the magnitude seen in 1929, 2000 and 2008 highly unlikely. That being said, there remains some concern about the potential impact of many large fund's investments in derivatives which could cause unexpected disruptions in the market if those portfolios need to be sold off quickly. Also, margin debt is also at a record high, further highlighting the possibility for a margin call-led nasty decline in share prices. So, the potential for a normal sell-off developing into something worse should not be ignored either. From a timing perspective, with the market rising with abandon, caution certainly appears to be the wise choice for investors right now. Increasingly, the market appears to be in a melt-up mode, which are hard to predict but always end badly. The rising euphoria in the equity market is a typical set-up for a sharp reversal, even with the strong fundamental backdrop.

Chart 9

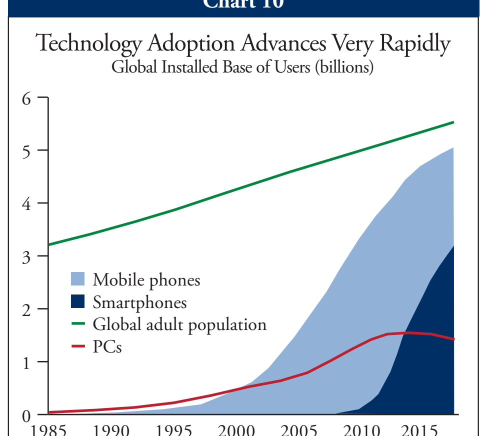


Even so, the behavior of the financial markets rarely proceeds in line with rational expectations. The odds suggested share prices would falter in the third quarter of last year and yet they continued to advance. It is entirely possible the markets will continue to confound sound analysis and move higher still, setting even more new records along the way. When investors get in a bubbly mindset and turn more into speculators, madness typically follows. One predicate for such a turn of events, however, is normally a "story", such as the internet in the late 1990's, which justifies such folly. We believe just such a story is currently developing and could gain more traction in the months ahead, allowing normally reasonable investors to throw caution to the wind and chase stock prices higher still. Our base case is for a meaningful decline in share prices to occur first, but it is certainly within the realm of possibility the markets will skip that stage and proceed directly to yet a bigger equity market bubble. With each day that passes, it looks more like this scenario may be unfolding before our eyes.

What is the big story that might cause investors to once again lose their senses and jump headlong into another bubble? We believe it could be the massive technological change which should be unleashed in the next decade as a result of the rapid and pervasive development of what has become known as the "internet of things" (IoT). IoT refers to the computerization of almost all aspects of life and it is primed to be as disruptive and revolutionary an economic force as the internet was itself nearly twenty years ago. In our view, the market is not quite ready to latch onto this trend at this juncture but that could change quickly as the technology already exists and it is now just a matter of applications to utilize this technology becoming more fully developed.

One of the holdings in our portfolios is on the forefront of these changes. It is a company which produces augmented reality glasses seen in the photo to the left. All the large technology companies are currently working feverishly to develop what this company has already produced and will soon be selling (and recently won many awards for at the huge annual Consumer Electronics Show in Las Vegas). These glasses can be fitted with your own prescription and actually look reasonably fashionable. The glasses can allow you to link with your cell phone and read and respond to incoming text messages on a screen projected in mid-air in front of your face, take phone calls, listen to voice mails, provide directions, take pictures or video and watch videos on a very clear, bright screen levitating in front of you. You may rarely have to take your phone out of your pocket again. The latest new development for these glasses is Amazon Alexa has been built into them so you can ask for sports scores or weather updates and have that show up on the screen projected in front of you. Or maybe you see something interesting such as a poster for a movie or show you would like to attend. By using Alexa you would be able to focus the glasses on the poster and ask Alexa to buy you tickets to the show. But the biggest use for a these glasses is in the corporate world where the money-saving applications are virtually endless. In the future, you will be able to drive in a foreign country and have the glasses translate the street signs for you and convert a foreign language speaker's words into English. This is truly revolutionary technology that is on the cusp of becoming the next must-have gadget and we are looking for other investments that may benefit from the growth of the IoT.

Chart 10



Source: Andreesen Horowitz

Self-driving vehicles, the smart home that is chock full of computer gadgetry to save energy and make life easier as well as robotics are all just a few of other IoT applications that will soon become as normal as your cell phone is now. Chart 10 portrays how quickly cell phones became commonplace across the globe. In our view, it may only be a matter of a short period of time before this latest leap in technology spurs another long bull market run. But it would be a healthier and longer-lasting advance if the market first sold off to alleviate the current extremes plaguing it.

STEWARDSHIP PARTNERS MARKET COMMENTARY

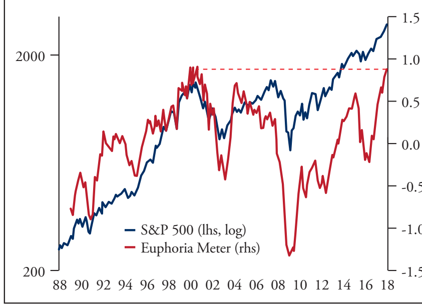
The "Nothing Matters" Market is Now Melting Up, Increasing Risk

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

The future is undoubtedly bright given the latest round of technological advances which should alter the economic landscape for the better over the next decade. Unfortunately, equities are melting up as we write this commentary, not because of that long term growth potential, but simply because the market has once again temporarily lost touch with reality. The evidence to support this is literally overwhelming. The number of charts we could use to demonstrate equity prices have risen much too high for comfort is prodigious but we have selected several to make sure none of our readers will miss the point that this is a particularly dangerous time to invest. No one can tell how long a bubble will last but we do know they cannot go on indefinitely. While it seems we may be at the beginning of this current bubble, the data suggest otherwise. Chart 11, for example, indicates euphoria among investors has already reached the level seen at the peak of the internet bubble, the biggest bubble in US history. Could it go higher? It certainly could as "impossible" is not a word normally associated with the financial markets in the last 20 years or so. Time and again the financial markets have moved to extreme levels no one ever thought feasible.

Chart 11

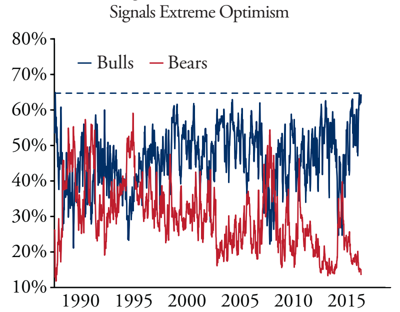
Investors as Excited About Stocks as in 2000
The Euphoria Meter
Combination of Forward P/E, VIX and Bullish Sentiment



Source: Topdown Charts

Chart 12

Bears are Becoming Extinct, Bulls Abundant
Investors Intelligence Bull/Bear Sentiment Measure
Signals Extreme Optimism

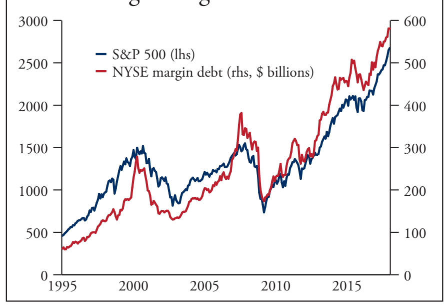


Source: Yardeni Research, Investors Intelligence

Another indicator of the current stretched situation in the equity market is the Investors Intelligence measurement of Bulls and Bears (Chart 12). Not since just prior to the crash in 1987 have we seen such a remarkable disparity between bulls and bears, not even in the internet bubble. Remember, the 22% one-day decline in share prices in 1987 occurred with no obvious provocation. Share prices simply collapsed one day for no clear reason other than they had gotten way too extended, just as they are currently. Moreover, we mentioned earlier that margin debt has hit new records highs (Chart 13) and you can be sure that margin call-related selling will be a factor pushing share prices rapidly lower when the market does turn.

Chart 13

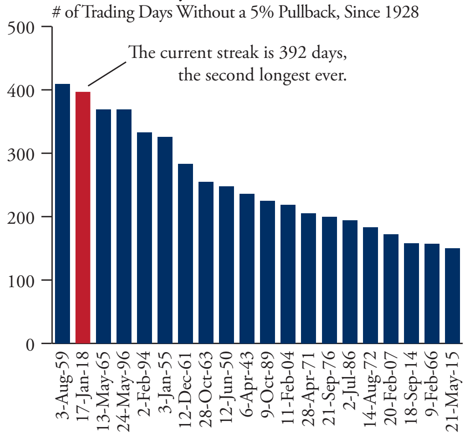
Record High Margin Debt Increases Risk



Source: Topdown Charts

Chart 14

We are Way Overdue for a Sell-off
# of Trading Days Without a 5% Pullback, Since 1928



Source: BofA Merrill Lynch

Of course, the market is also well overdue for a move lower. Chart 14 highlights the current extended run this market has had since well before Trump was elected. Share prices are now very close to setting a new record for the length of time that has passed since the last 5% correction. Indeed, the market's inability to fall even a little is demonstrated by the total of the percentage points lost on the S&P 500 on its infrequent down days in 2017 was the lowest on record by far. 2017's market was clearly a huge outlier and extremely unusual, defying all norms for typical market activity. The only question now is if, or perhaps when, this oddity will lead to share prices falling more than expected as this measure, and others, inevitably revert to the mean.

Table 2

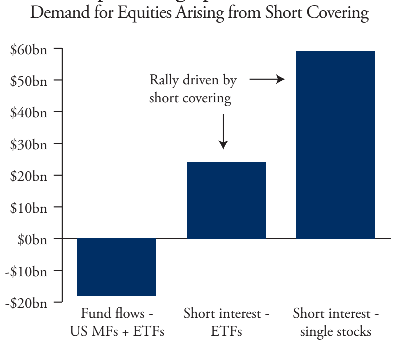
This Market Never Falls!
# of Consecutive Monthly Advances
S&P 500 Total Return

Start Date	End Date	# of Months
Nov-16	Dec-17	14
Apr-35	Mar-36	12
Jun-49	May-50	12
Sep-53	Jul-54	11
Mar-58	Jan-59	11
May-36	Feb-37	10
Dec-94	Sep-95	10
Aug-82	Apr-83	9
Dec-63	Jul-64	8
Sep-66	Apr-67	8
Apr-80	Nov-80	8
Nov-95	Jun-96	8
Jun-06	Jan-07	8
Sep-10	Apr-11	8

Source: Pension Partners

Chart 15

Shorts Capitulating Spur Market Advance
Demand for Equities Arising from Short Covering



Source: EPFR, CFTC, Factset, Bloomberg, UBS

As noted earlier, the market has already set a new record with 14 consecutive monthly advances with 2017 being the first year ever where stocks never fell in value in any month of the year (Table 2). With such a long string of success, investor's memories can quickly forget the pain the market can and does sometime bring upon risk-takers, leading to increased speculative activity. We can only imagine how crazy share prices might be acting right now if a good portion of the speculative fervor not been siphoned away from the stock market by Bitcoin and other crypto currencies. As the market advance kept grinding along, it was fueled in large part by buying from those investors covering their short positions (Chart 15). Capitulation by short sellers is another sure-fire sign of an impending market top. As we have already noted, it is near impossible to identify just when speculation will come to a halt, but the chances are high it will occur abruptly and harshly.

Speculative Behavior Eventually Matters, Caution Remains Warranted

"It was customary for the king to consult experts ... he spoke with the wise men who understood the times" Esther 1:13

The current bull market has been the largest and longest since 1949 (Chart 16). Therefore, even before the recent melt-up, betting this bull would continue its move higher, let alone in a an accelerating manner, was hard to justify. This was particularly the case since the central bank asset purchases fueling its long advance, has now started to be withdrawn. President Trump's pro-business, pro-economic growth policies have clearly played a big role in allowing the bull to continue to run even as the Fed became less accommodative. Moreover, economic activity outside the United States also seemed to benefit from a "Trump effect" with good economic performance seen in every region of the world. The initial positive market reaction to Trump's economic policies, however, may not last much longer. Trump's tax cuts may create too rapid economic growth in an economy that is already operating near full utilization. Should inflation be the result, as it normally is in such circumstances, the slow withdrawal of monetary accommodation by the Fed could give way to a much more hawkish approach in order to slow economic growth and counter the inflation threat. Even if this is not the proximate cause of a market downturn, the current bull run is so lengthy and now hyper-extended, it is subject to other factors arising to reverse its course. We may not get a 20% reversal needed to officially end this bull market but the chances of a meaningful correction in the short term are now very high. When nearly all trustworthy market indicators are flashing red as speculative behavior takes over, the possibility of an ugly sell-off is elevated.

Chart 16

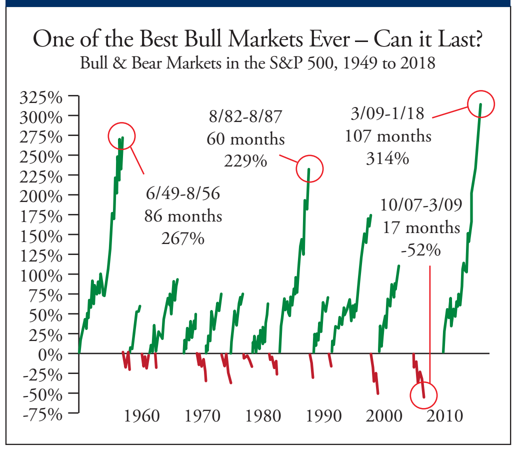
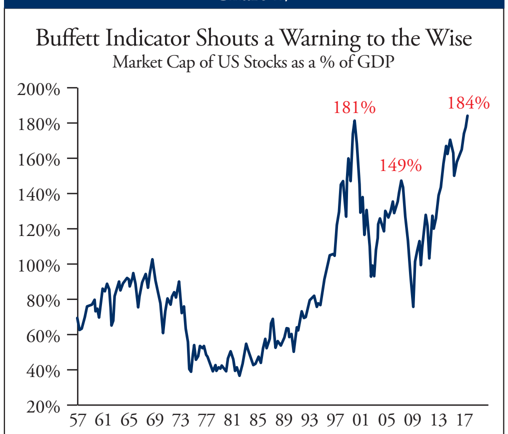


Chart 17



Source: BEA, Federal Reserve

Another indicator of heightened risk in the equity market is the Market Cap to GDP ratio (Chart 17). Sometimes referred to as the Buffett indicator due to the legendary investor, Warren Buffett, referencing it, this measure shows share prices have reached a level that exceeds even that seen at the height of the internet bubble in 2000 and well above the level seen before the real estate bubble burst in 2008. While setting a new record high on this gauge is not a guarantee of a weaker equity market in the near future, investors would be wise to listen to what it is saying about the current condition of the market. Caution remains warranted and taking even more defensive measures is advisable.

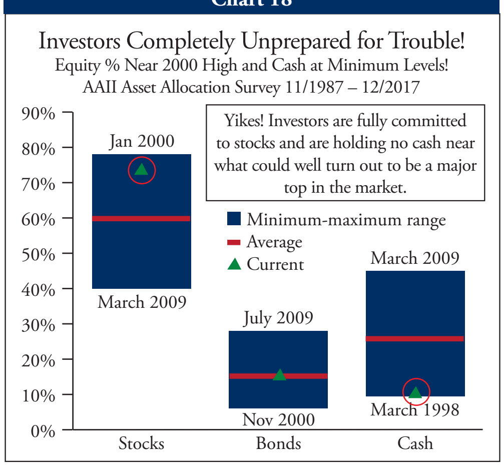
Table 3

Reminder: Bear Markets are Painful and Inevitable!
S&P 500 Bear Markets since World War II

Peak	% Decline	P/E Ratio (TTM)	CAPE Ratio	10 Year Yield
May 1946	-26.6%	21.7	16.0	2.2%
June 1948	-20.6%	9.0	11.6	2.4%
July 1957	-20.7%	14.1	16.9	3.9%
Jan 1962	-26.4%	21.3	21.2	4.1%
Feb 1966	-22.2%	17.5	23.7	4.8%
Nov 1968	-36.1%	18.4	22.2	5.7%
Jan 1973	-48.2%	18.1	18.7	6.5%
Sept 1976	-19.4%	11.1	11.8	7.6%
Nov 1980	-27.1%	9.2	9.7	12.7%
July 1987	-33.5%	20.8	17.3	8.5%
July 1990	-19.9%	16.8	17.8	8.5%
July 1998	-19.3%	29.9	38.3	5.5%
Mar 2000	-49.1%	28.3	43.2	6.3%
Oct 2007	-56.8%	20.7	27.3	4.5%
Apr 2011	-19.4%	19.0	21.8	3.9%
Current	**???**	**24.7**	**31.2**	**2.3%**

Source: Robert Shiller

Chart 18



Source: AAII

After such a long bull market, especially when the most recent stages of it have been devoid of risk, we believe it is appropriate to remind ourselves just what a bear market looks like. Table 3 catalogues the bear markets which have afflicted shareholders since 1946. Reducing exposure to downturns like these is something all investors should be considering strongly at this point in the market cycle. Since no one knows when the speculation will peak and reverse, it may mean some gains are initially foregone, just as we have seen in our portfolios in the latter part of 2017. But if the pain of a bear market can be even partially avoided, the end result could well turn out better than riding out the storm in a fully invested mode.

While we can't know when the correction will start or how long it will last, we can know stocks will sell off eventually and that it stands a good chance of being quite painful for unprepared investors. Not surprisingly, most investors are unprepared (Chart 18), as is always the case at a peak in the market. We continue to believe the combination of cautious portfolio positioning and the high probability of our largest holding performing well in 2018 provides our clients with a very good opportunity to attain capital appreciation even in the challenging market conditions present at the moment. Accordingly, we are optimistic about our short term prospects and believe the market's long term outlook is worthwhile as well since technological innovation will ultimately drive a new, significant bull market.

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, Southern Company, and one we avoid, Uber. Southern Company is a holding in some of our Stewardship Partners portfolios while we would actively avoid ownership in Uber 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 – Southern Company – An Exemplary Corporate Citizen

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

Southern Company, not surprisingly headquartered in Atlanta, GA, traces its roots back to 1906 when a company called Alabama Traction, Light and Power was formed. Between 1906 and 1949, the company went through a number of mergers. At one point the Southern Company was actually half northern as it had merged with six northern state utilities. Ultimately, however, the company returned to its southern roots when regulatory changes forced it to de-merge from those northern utilities. In 1969, the company hired a former scientist from the Manhattan Project in order to help the company embrace innovation and make a push into nuclear energy. In 1981, part of that innovation was the formation of a unregulated subsidiary, the first time this had been done by a regulated utility in almost five decades. It also was aggressive about expanding globally and ended up owning ten companies on four different continents. Ultimately, these operations were spun off into a company that ultimately was driven into bankruptcy due to its connections to Enron and its collapse. While the history of the Southern is certainly very colorful for an electric utility, it now is focused on a wide variety of subsidiaries located largely in the Southeastern portion of the United States as its corporate name suggests. The company is one of the largest utility companies in the country and serves 9.2 million customers. It owns four electric utility company in four states and natural gas distribution utilities in seven states. Additionally, it operates a wholesale energy business, and provides customized energy solutions across the country. Southern Company also markets fiber optics and wireless telecommunications services. Notably, it is currently constructing the first new nuclear energy plant built in the US in three decades near Augusta, GA. The company generates its energy using natural gas for 47% of its capacity, 27% from coal-based plants, 16% from nuclear facilities and 10% from hydroelectric and other alternative sources. Not many years ago, the company's electricity production was dominated by coal-fired plants and its move towards more environmentally-friendly natural gas in recent years has been a wise stewardship decision. The company also continues to innovate with other sources of clean energy including building the largest biomass facility in the United States and clean coal which burns as clean as natural gas.

Southern Company is an attractive long term investment opportunity for Stewardship Partners clients who need a more stable, higher yielding portfolio but we are just as interested in the fact the company has worked hard to be an outstanding corporate citizen. Indeed, the company states on its website, "Our mission to provide clean, safe, reliable and affordable energy is about more than our bottom line. We're committed to supporting and improving our communities and environment at the local level and beyond, while conducting business with honesty, integrity and fairness". Further, the company highlights four values which dictate the manner in which the Southern Company operates. The company states, "Our uncompromising values are key to our sustained success. They guide our behavior and ensure we put the needs of those we serve at the center of all we do". The first of these values they label "Unquestionable Trust" reflecting the company's strong commitment for all company representatives to act with honesty, integrity, respect and fairness. The second value is "Safety First" which highlights the company's stated desire to do its utmost to ensure the well-being of its employees and customers in the inherently dangerous business of producing and distributing energy in all its forms. The third corporate value is "Superior Performance". This refers not only to financial performance but to constantly improving the operating performance of Southern Company's many business segments and always optimizing the company's environmental stewardship. The final corporate value is "Total Commitment" which reflects the organization's commitment to the success of its employees, customers, community and its shareholders. To help make sure these high ideals are not undermined, Southern Company's Concerns Program has been established to allow anyone to confidentially contact the company with reports of illegal or unethical via an 800 phone number.

Like most successful companies, Southern Company goes above and beyond the norm in terms of how it treats its employees. Its extensive programs to bless its staff allow the company to live out its first corporate value of "Unquestionable Trust" as it should be plainly obvious to company employees that the organization is seeking to bless them in a wide variety of ways. All Southern Company employees are naturally paid competitive wages but there are a variety of other compensation arrangements that allow employees to significantly increase their earnings. These include merit pay increases and the Performance Pay Program (PPP) which awards performance related cash bonuses. Many Southern employees are also eligible for the Performance Share Program (PSP) which grants often substantial bonuses paid in shares of the company's stock based on the employee and company's performance over a three year period. Southern offers a seemingly endless array of health, life and disability insurance coverage as well as related programs. In addition to the standard medical, prescription drug, vision and dental coverage, the company also provides employees with basic life insurance for themselves, and allows them, their spouses and their children to purchase additional life insurance at attractive group rates. The company also offers Flexible Spending accounts, Health Reimbursement Accounts and Health Savings Accounts to its employees so that they can have the maximum flexibility depending upon their personal circumstances. A Mental Health and Substance Abuse Plan is also available to those employees where such difficult struggles are present in their families. Employees and their household members can receive free and confidential help from professional counselors in the areas of stress, grief and traumatic events, marital and family problems, alcohol and drug problems, emotional problems and much more. Recognizing that the best way to avoid health problems over the longer term is by pursuing a healthier lifestyle, the company offers access to employees to a wellness program so they can build good health habits and receive a customized wellness and health management program. Southern Company also makes available at attractive group rates auto and home insurance, long term care insurance, identity theft protection, legal assistance and hearing aid discounts. Southern Company also goes well above the norm in helping its employees prepare for and enjoy retirement. Financial planning services are provided and Southern is one of the few companies still offering a defined benefit pension plan. The company also has a savings plan where they match employee contributions up to 6% of their base salary and which allows staff to save very significant sums through additional options and vesting in this plan is immediate. Retirement health care, dental and life insurance plans are also offered by Southern Company. This is not only a great company to work for, it is also a great one to retire from! We are also impressed by the company's commitment to assisting those with a military background both in terms of making jobs available as well as granting leave when employees are called to active duty. Such military personal are paid the difference between their military compensation and their Southern Company salary and continue to accrue service time while serving in the military. The company also provides maternity, parental and adoption leaves of absences and offers educational assistance.

Southern Company, as you can imagine, has won many awards for its outstanding commitment to its workers and it community. Among these is winning a place on Military Times EDGE magazine's list of Best Vets employers for the eighth consecutive year and being named to Careers and the disABLED magazine's list of top 50 employers. These are just some of the many awards the company has won from outside organizations for providing work to those who have historically been disadvantaged in the workplace. Both Southern Company and its employees have proven to be quite generous. In 2015, the company donated $45 million to a wide variety of charities including the Ronald McDonald House, the Council for Aging, the American Cancer Society and the Salvation Army. Southern company employees pitched in with an additional $2 million in giving and 210,000 of volunteer hours through the company's "A Day On not a Day Off" program. Both the company and employees contribute to an Employee Assistance Program to help Southern Company families who are facing temporary financial needs brought about by storms and other unfortunate circumstances.

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

The Bad – Uber – Exploiting Workers, Unethical Business Practices

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

Normally we focus on public companies when we highlight companies in which we will not invest. In this case, however, we decided to focus on Uber, which is not yet publicly traded but no doubt will be at some point in the future. Uber's car sharing service has run into a myriad of legal problems and many believe it exploits the independent contractors it works with. The concept of providing a mobile app to allow people to quickly hail a ride from an individual using his/her own car to get you cheaply and efficiently to your destination is a good one. And many people have already experienced the benefits Uber provides. But when you ask your Uber driver how he feels about his/her business arrangement with Uber, be prepared to hear an uglier story. The biggest issue is most Uber drivers earn barely above the minimum wage and as contractors, rather than employees of Uber, they receive no benefits at all and are responsible for paying twice the Social Security tax employees have to pay. Needless to say, this is leading to very heavy turnover among Uber contractors which is said to have reached 50%. This is also leading to the company recruiting lower quality drivers to fill the gaps. On top of this, the Uber corporate culture has been called "toxic" and more than 20 company employees were fired following reports of 215 separate claims of sexual harassment. Some Uber drivers have also been accused of sexually assaulting their passengers. Additionally, the company has been accused of stealing trade secrets from a competitor and writing software into mobile app that helped it evade oversight from local government officials. Uber might be quick and cheap, but there is a mess behind the scenes

When Uber does become a public company, we would not invest in it. As BRI investors seeking to please and honor our Lord, we naturally look elsewhere to achieve investment success as we do not want to be associated with a company using shareholder resources in a manner the Bible defines as sinful and which can have a negative impact on individuals and society in general.

STEWARDSHIP PARTNERS
MINISTRY COMMENTARY

Our Ultimate Goal – Funding the Lord's Work

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

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

"Be very careful, then, how you live—not as unwise but as wise" Ephesians 5:15

In July of 2016, we highlighted the good works of Ravi Zacharias International Ministries (RZIM) in this space. Recently, some concerns have arisen about Ravi Zacharias which we believe were meaningful enough to address on our MinistryWatch.com website. Having highlighted the many positive attributes of RZIM in this space previously, we thought it best to make sure readers who might be donors to RZIM due to our endorsement were made aware of these developments as well. To get a more in depth discussion of this matter, you may want to go to MinistryWatch.com to read our full report.

There are two troubling issues we want to make sure readers of our Quarterly Commentary understand. First, an atheist blogger who seeks to undermine RZIM, researched the various academic credentials Ravi Zacharias has long publicly claimed. These claims could be found on his ministry's website and in books he has written. Upon closer inspection, however, it is unfortunately clear many of these claims were exaggerated by Zacharias. While we do not believe these exaggerated academic credentials suggest any deficiencies in the excellent teaching RZIM has provided over the years, it does raise a character issue with Ravi Zacharias himself which some may find troubling.

The second issue became known when a woman and her husband went public with a demand for a $5 million extortion payment to keep quiet about an alleged online sexual relationship between Ravi Zacharias and the woman. Zacharias responded by suing the woman and her husband in civil court. In Zacharias' court filings and in separate public comments in Christianity Today magazine, however, he acknowledged his relationship with the woman, while not sexual, was inappropriate from a married man. At the heart of the matter is whether Zacharias solicited the nude photos both parties acknowledge the woman sent to him. Zacharias claims he did not and that he destroyed them immediately while the woman claims he did request them. Notably, Zacharias has not denied the claim made by the couple, and backed up by unverified e-mail exchanges between the two, that he threatened to commit suicide if the woman told her husband about their online relationship. In the end, we likely never know the full truth of what actually happened as the lawsuit was settled between the two parties with Zacharias almost certainly making some payment to the couple to get them to agree to a non-disclosure agreement. It is hard to believe Zacharias would have chosen this legal route to shut down the matter rather than attempt to prove the couple was lying in court if there were not some truth to the claims made by the couple. Sadly, at a minimum, it can be factually asserted that Ravi Zacharias allowed himself to get involved in an online relationship with a married woman that was inappropriate. The degree of the inappropriate behavior cannot be fully determined and the settlement has left a cloud of suspicion over RZIM. This again raises the character issue for this esteemed Christian leader.

Additionally, we have been disappointed with how the board of RZIM has handled this situation. There has been a lack of transparency with RZIM donors from the board to donors. It seemed apparent to MinistryWatch.com the ministry had hired a team of lawyers and public relations specialists who assist in crisis management. Reasonable questions about the matter went unanswered and claims were made the board stood behind Zacharias in fighting these "false accusations". Yet, they did not fight them and it is not even clear the board has seen all of the evidence, let alone the courts. We are saddened to have to report this information, but felt obligated to do so given we previously highlighted RZIM as a ministry worthy of your donations.

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 – Crown Financial Ministries

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

Crown Financial Ministries seeks to equip people worldwide to learn, apply, and teach God's financial principles so they may know Christ more intimately, be free to serve Him, and help fund the Great Commission. Founded in 1976, Crown has taught or equipped more than 50 million people in over 100 nations with the life-transforming message of faithfully living by God's financial principles in every area of their lives. Building off the excellent teaching heritage of Larry Burkett, who sold over 12 million books, the ministry continues to excel and is now ably lead by Chuck Bentley. The ministry's staff, as well as many volunteers, teach financial seminars in churches, respond to requests for Crown's many books, tapes and other financial resources and produce information on subjects ranging from a biblical approach to financial matters in marriage to biblically-based teaching on giving, debt and budgeting. Additionally, the ministry produces a radio program which is carried on over 1,000 radio stations with a potential listening audience of 8 million people. The ministry's website offers a wide variety of helpful resources including an array of personal financial tools and calculators, a wide variety of business and career planning aids, help with making a personal financial assessment, tax tips and a debt resource center to help the many Christians who have found themselves hamstrung by heavy debt loads. The ministry also hosts a number of conferences around the world to help people better apply their message of the wisdom of relying upon Christian-based financial principles and to train volunteers to do the same.

Crown's greatest growth in recent years has been outside the US as the ministry has found its work is increasingly in demand around the globe. Crown materials and seminars can now be found on five different continents and in 120 different languages. Many nations where Christianity is still relatively new still have little understanding of Christian financial principles and generosity. As a result, Crown's teaching is helping these new Christians become better disciples sooner than might otherwise have been the case. Crown's theater quality series of six films entitled "God Provides" is just one of the ministry's many products that have been translated to have a global impact. These short films highlight biblical stories and parables to teach viewers about the importance of and benefits from trusting God for all our needs. Crown has trained over 2 million people in its small group studies and has distributed over 1 million copies of its Money Map throughout the world.

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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