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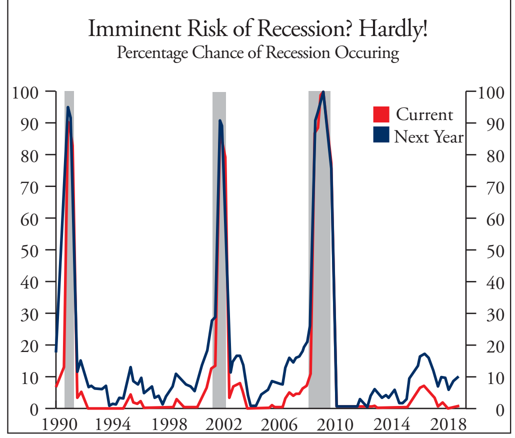
Well That Was Ridiculous!

"Therefore do not be foolish, but understand what the Lord's will is." Ephesians 5:17

While 2019 is off to very fast start for equities, 2018 included some of the strangest market behavior we have witnessed in our long career yet. Little went according to the normal script. Following 2017, a strange year itself when stock market volatility virtually evaporated, 2018 had plenty of unexpected and sharp movements in share prices. Basically, in 2018 share prices got everything backwards and upside down versus historic behavior. The year started with stocks initially continuing the volatility-lite move higher seen in 2017, but that quickly ended with share prices tanking at the end of January and into early February. Normally stocks rise in the first quarter of the year, but in 2018 the first quarter registered a loss for the S&P 500 as stocks at one point offcially entered correction territory after falling by more than 10% from the high. Typically, stocks hit a rough patch in the middle of the year with August and September being the weakest months for equities historically. In 2018's third quarter, however, the S&P 500 oddly had its best quarterly return in the last five years. Nothing really happened during the quarter justifying such a good result, but it happened anyway. But it did not last long. Stocks almost always close out the year on a high note and even more so in years including a midterm election. In 2018, however, stocks once again ignored the norms and instead fell sharply in the fourth quarter. Had the S&P 500 not suffered its fourth quarter crash it would have set a new record for consecutive years without a loss at 10 years. In the end, 2018 turned out to be difficult not only for stocks around the world, but for every asset class other than cash (Table 1). Given it was a year when corporate profits were soaring on the strength of the Trump tax cuts and a very good economic backdrop in the US, this sell-off was even more surprising.

Chart 1



Source: Goldman Sachs Global Investment Research

Table 1

4Q18 Total Returns

US Indices	4Q18	YTD	5y Ann
S&P 500	-13.5%	-4.4%	8.5%
S&P 500 Value	-12.0%	-9.0%	6.1%
S&P 500 Growth	-14.7%	0.0%	10.6%
NASDAQ	-17.3%	-2.8%	11.0%
S&P 400 (Mid Cap)	-17.3%	-11.1%	6.0%
S&P 600 (Small Cap)	-20.1%	-8.5%	6.3%
Treasury Bonds	2.6%	0.9%	2.0%
High Grade Corp. Bonds	-0.2%	-2.5%	3.3%
High Yield Corp. Bonds	-4.5%	-2.1%	3.8%
Gold	7.5%	-1.6%	1.2%
Global & International Indices			
MSCI World	-13.4%	-8.7%	4.6%
MSCI EAFE	-12.5%	-13.8%	0.5%
MSCI Euro	-13.2%	-16.4%	-0.9%
MSCI Far East	-12.7%	-12.1%	3.3%
MSCI China	-14.2%	-12.9%	3.1%
MSCI Japan	-10.7%	-18.9%	4.6%
MSCI Emerging Markets	-7.5%	-14.6%	1.6%
US Economic Sectors			
Energy	-23.8%	-18.1%	-5.6%
Materials	-12.3%	-14.7%	3.8%
Industrials	-17.3%	-13.3%	6.0%
Consumer Discretionary	-16.4%	0.8%	9.7%
Consumer Staples	-5.2%	-8.4%	6.3%
Health Care	-8.7%	6.5%	11.1%
Financials	-13.1%	-13.0%	8.2%
Information Technology	-17.3%	-0.3%	14.9%
Telecom	-13.2%	-12.5%	2.6%
Utilities	1.4%	4.1%	10.7%

So, what explains the market going from one of the calmest on record in 2017 to hyperventilating over seemingly unrealistic threats in 2018? Frankly, we cannot fully explain this abrupt turn of events. For example, the sharp sell-off in all assets in the fourth quarter of 2018 was fueled by concerns the US economy was either already in or very close to being in a recession. Chart 1, however, highlights such a concern was ridiculous as measures of recession risk remained very low and US economic growth remained quite strong. Given a backdrop of trade tensions with China and a Fed raising interest rates even as the economy was beginning to slow, however, investors were worried things might spiral out of control. Moreover, outside the US, the economic scenario was not as rosy and investors were concerned it was only a matter of time before that weakness spread to the US as well. With interest rate sensitive sectors of the US economy beginning to bend under the weight of the Fed's ninth interest rate increase, concern about a Fed monetary policy mistake boiled over and led some investors to panic. The S&P 500 actually fell by more than 20% from its late September high to the middle of the day on Christmas Eve, signalling a bear market, but managed to rally before the end of the day to officially stay out of bear market territory. Other sectors of the market, however had already fallen by more than 20% from their previous highs and were officially in a bear market including NASDAQ, small and mid-cap stocks, international developed market shares and emerging market stocks. Following Christmas, the S&P began to recover and has moved significantly higher since, helped by a speech by the Fed chairman, who basically told the market everything it had wanted to hear from him in mid-December. Had he just said in mid-December what he said in early January, much of the latter portion of the market's freak-out could have been avoided. Additionally, the December employment report was very strong and basically embarrassed all those market prognosticators who were calling for an imminent recession. In the end, the whole of 2018 was weird and the nasty sell-off at the end of 2018 was simply ridiculous.

We entered the fourth quarter conservatively positioned in our clients' portfolios, but took advantage of the panic to get more fully invested. As a result, we benefitted from the quick recovery in the market after Christmas while we were able to outperform the indices in most of our portfolios in 2018 as well. While there are always risks, we are hopeful 2019 will be a year when investors act a bit more maturely than they did in 2018.

Recession? What Recession?

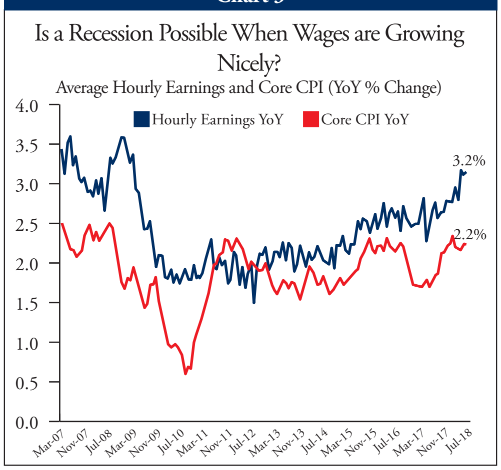
"…many false prophets will appear and deceive many people." Matthew 24:11

The collapse in virtually all asset prices at the end of 2018 was especially perplexing given the strong evidence the US economy was continuing to perform well. While we could point to a wide variety of economic indicators to highlight this, the Index of Leading Economic Indicators seems to be as relevant an example as any. As seen in Chart 2, the index continues to suggest economic growth will remain strong in the months ahead. Other evidence, however, reveals the economy had begun to grow at a slower pace later in 2018. In many ways, this cooling in economic growth from the earlier Trump tax cuts-inspired, more rapid economic growth was a welcome development. Had the economy continued to grow as rapidly as it had earlier in the year, inflation was sure to become a problem that would have led to an even stronger monetary policy response from the Federal Reserve. Hitting the monetary policy brakes hard to slow a runaway economy would have sent the prices of financial assets like stocks, bonds and real estate even lower than they fell in the latter part of the year. So, it was surprising when the financial markets still fell apart late in 2018 even as the economy slowed while still growing at a sustainable, non-inflationary pace.

Chart 2

Source: The Conference Board and BCA Research

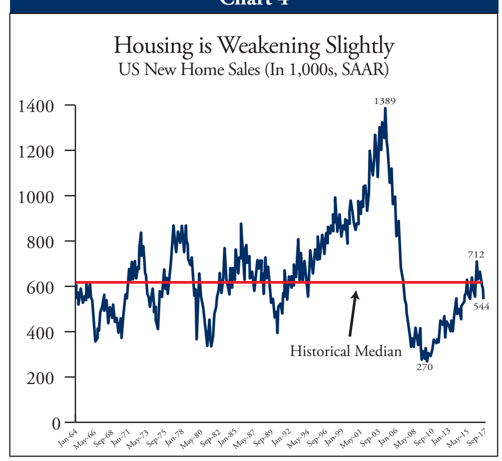
Chart 3



Source: CharlieBilello, Pension Partners

Moreover, the US consumer, which accounts for roughly 70% of US economic activity, remained in a very healthy spot. Due to the increasingly tight labor market, wages have continued to expand (Chart 3) and consumer debts, outside of student loans, were not at especially burdensome levels by historical standards. While low unemployment and faster wage growth poses a risk to inflation, such risks were never realized as inflation actually slowed aided by lower fuel prices. And oil prices were falling not because a lack of demand but rather an excess of supply as the US oil industry continued to increase its production to new highs by utilizing new technologies. These lower oil prices were effectively another fiscal boost to consumers around the world and were particularly helpful to the US economy which was starting to come down from the earlier "sugar-high" brought about by the huge Trump tax cuts.

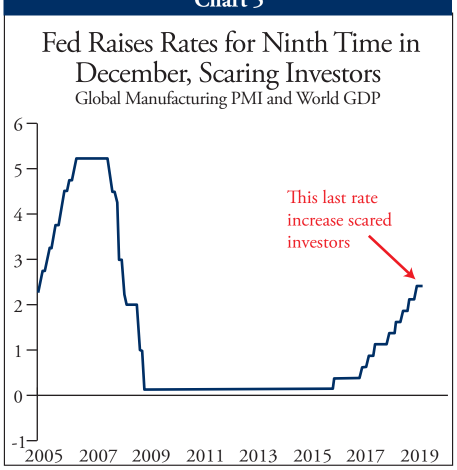
Chart 4



Source: CharlieBilello, Pension Partners

Still, despite good economic fundamentals, investors were growing more and more concerned. The trade tensions with China, while still relatively minor, stoked fears of the Great Depression which many believe similar trade wars at that time helped ignite. Weakness in the housing industry, while still slight (Chart 4), raised alarm bells for many as well. Despite these growing concerns, the S&P 500 hit a new all-time high price on September 21st and then nearly matched that level again in early October as investor angst had not yet led to any notable negative impacts in the financial markets. When Federal Reserve Chairman Powell gave a speech in early October, however, in which he claimed the current level of interest rates remained meaningfully below neutral levels, the idea the Fed was about to make a monetary policy mistake by tightening too much as the economy was already beginning to cool, took hold in the markets. With only those concerns as evidence, the markets started to slide.

Chart 5



Source: Haver Analystics, Goldman Sachs Global Investment Research

Meanwhile, while the financial markets were reacting to still unseen threats, the Federal Reserve and its Chairman had to contend with the reality of an economy which was still growing and where the increase in interest rates in recent years, in their view, had still not normalized at levels consistent with the growth rate of the economy and inflationary pressures they saw building on the horizon. As a result, much to the markets chagrin, the Fed once again raised interest rates in mid-December (Chart 5). Chairman Powell's explanation of the increase was lucid and rational but the financial markets were already convinced the Fed had pushed interest rates too far in the face of growing economic troubles globally. The result was a fit of hysteria by investors which quickly put many equity indices into bear markets. This is highly unusual without the presence of a recession and/or a collapse in corporate earnings. While 2019 earnings expectations have fallen since the Fall, the S&P is still expected to see earnings growth of roughly 7-8% during the year. Accordingly, there was little justification for the steepness of the market declines in late 2018, at least in the US markets. It is rare when the markets fall so hard without a recession or at least a decline in corporate earnings accompanying the drop. We believe the changing structure of the market, with very large, short term oriented funds beginning to dominate trading, may have played a role in the market's unusual downfall in late 2018.

Chart 6

Source: IHS Markit, Eurostat

Overseas, however, the threat of recession seems much more legitimate. As has been true for quite some time, the condition of the European economy has been consistently worse than the US. Unlike the US, Europe was late to institute some of the aggressive monetary policy measures the Fed quickly embraced following the 2008 financial crisis. Additionally, they have not had fiscal stimulus such as the Trump tax cut. As a result, the European economy is languishing and is much closer to entering a recession than the US economy (Chart 6). While there may still be time for Europe to avoid a recession, we are not aware of any policies that would halt the current slide in economic activity there. Additionally, the never-ending uncertainty about Brexit is also weighing on economic performance in Europe, as are protests against the government in France. Therefore, at least a mild recession in Europe in 2019 seems almost inevitable. For that reason, our portfolios have almost no direct exposure to Europe.

Chart 7

Source: N/A

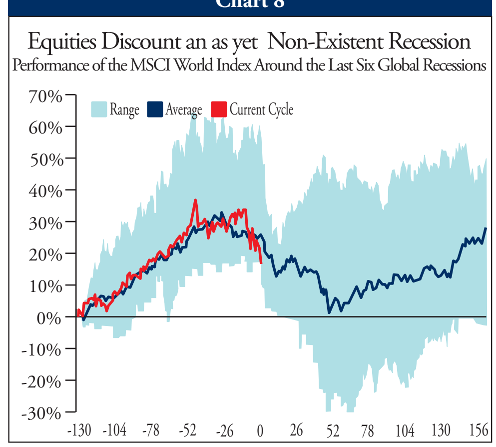
Europe's economy is also being hurt by a slowing Chinese economy as China is a major export partner for Europe. China's economy is suffering from the trade war with the US and from its massive debt load. The sharp recent decline in auto sales (Chart 7) is emblematic of China's slowing economy, even if official government growth estimates continue to lie about the reality. Government policymakers, however, are seeking to find a mixture of fiscal and monetary policies which will help revive the Chinese economy. In light of these negative trends, we believe the chance of an end to the trade tensions between the US and China is likely imminent. Even so, this might be too little too late to prevent a recession in China. Investors across the globe will likely be skittish until it is clear China has returned to normal levels of economic growth as a recession could lead its massive debts to implode, thereby impacting the global economy. We suspect the US would not be seriously harmed by such an eventuality, should it develop, but the return of global deflation would likely be one outcome should China fall on hard economic times. If so, this should make monetary policy easier in the US and elsewhere since the threat of inflation would likely evaporate. Europe and the emerging markets, which depend much more on China for economic growth than does the US, could face some difficult times if China's economic situation devolves into a serious economic meltdown.

Do the Financial Markets Know Something We Don't?

"I heard, but I did not understand. So I asked, 'My lord, what will the outcome of all this be?'" Daniel 12:8

As we noted earlier, the stock market's behavior in 2018 was not normal. It seemed to get everything backwards relative to the ordinary patterns. In addition to what we have already highlighted in that regard, we can add that in each of the past 18 mid-term election years, covering a 72 year time period, the S&P 500 rose between the election and the end of the year. Rarely in the equity market does something work 100% of the time over such a long time period. Naturally, in 2018, the market again got things backwards and instead fell following the election, ruining the impressive streak.

Chart 8



Source: Charles Schwab

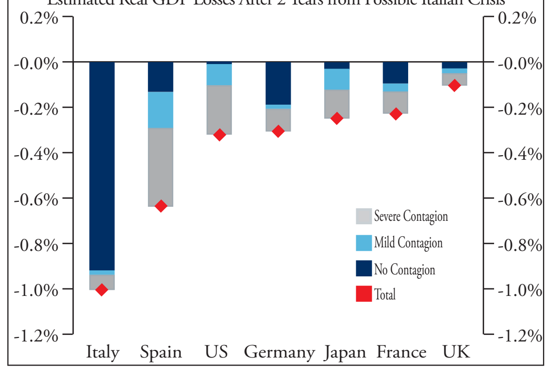
Indeed, the unusual decline in equity prices while the economy and corporate earnings remained strong seems to be warning us a recession is upon us and we are somehow missing it. Or has the stock market simply seen its ability to predict upcoming economic trouble wane and is now simply a loose cannon firing off inaccurate signals to investors? Chart 8 highlights how the MSCI World Index has traded before and after past global recessions compared to the current trend in share prices. In this case, however, there is still no global recession even though we are already in a bear market. Despite this, Chart 8 shows the decline in share prices so far has been greater than in those cases when there actually was a recession in the past! Now we readily concur that the risk of recession starting in Europe soon is high and there is certainly a serious threat of a recession in China, but the evidence for a recession in the US anytime soon seems weak at best. Are equities overreacting or are we missing something the markets are seeing? Let's look at the evidence and see what we can determine.

Clearly there are real threats to the global and US economy but those threats have not yet transformed into the reality of a recession and the ultimate outcome may show the worst was avoided. Moreover, as is always the case, there are opportunities for new growth that may partially or fully offset the threats. For example, the sharp decline in oil prices seen over the last year acts as a stimulus to economic growth. And both the US consumer and the US banking system appear to be in very good shape. Since these are key components to a healthy US economy, the chances of other threats being able to undermine US economic growth are not as high as they might normally be at late point in the economic cycle. Outside the US, however, the risks are greater. For example, one of the biggest threats comes from Italy where fiscal and banking mismanagement has gone uncorrected for years. Chart 9 highlights the impact that might result from Italy's woes becoming a significant crisis. We suspect this will not be the case, but if it did happen, Chart 9 shows how economic growth might be slowed in different countries, and it is pretty minimal. Still, the recession threat in Europe is real, if only mild.

Chart 9

How Bad would an Italian Crisis Hurt?

Estimated Real GDP Losses After 2 Years from Possible Italian Crisis

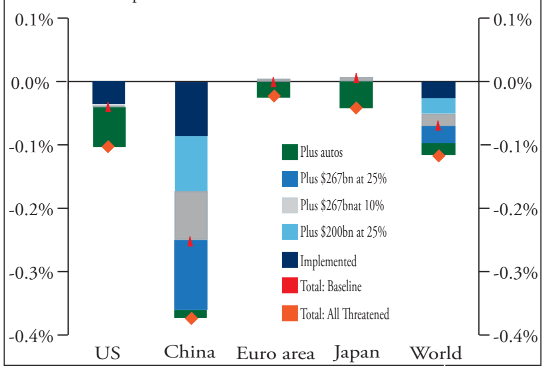


Source: Goldman Sachs Global Investment Research

Chart 10

How Bad Will a China Tariff War Hurt?

Real GDP Impact From Different China Tariff Scenarios After 3 Years



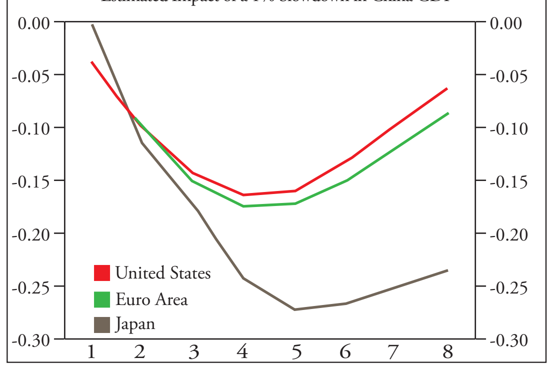
Source: Goldman Sachs Global Investment Research

The trade war with China is another threat to economic growth, but is it as sizable a threat as the news media make it out to be? Chart 10 represents Goldman Sachs efforts to determine the effects of the tariffs, both those already implemented and those threatened to be. As can be seen, even for China, the impact is not substantial. For the US and the whole world, even under the most onerous scenario, the impact to GDP growth after three years is only about 0.1%. Individual industries might be hurt significantly by the trade war, but as a whole, both the US and world economies should not be thrown into a recession by the tariffs that have already been put in place and even those that might yet be put in place. Moreover, it seems the US and China are getting closer to resolving their trade dispute and we would not be surprised if an agreement is reached that ends this threat in the near future.

Chart 11

How Much Would a Chinese Economic Slowdown Hurt?

Estimated Impact of a 1% Slowdown in China GDP

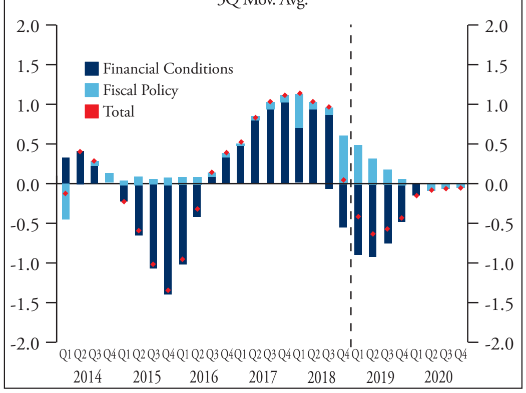


Source: Goldman Sachs Global Investment Research

Chart 12

Small Pressures on 1H19 US Growth

Effects on Real GDP from changes in Fiscal Policy and Financial Conditions, 3Q Mov. Avg.



Source: Goldman Sachs Global Investment Research

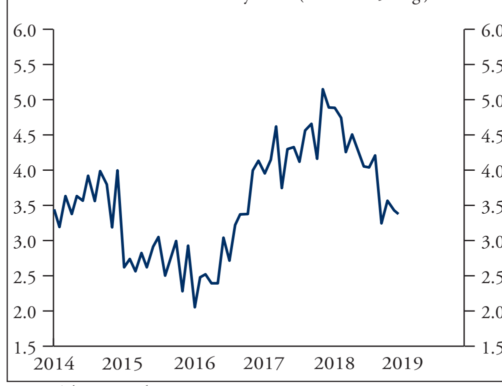
Of course, China's economic problems extend well beyond just the trade tensions. It has massively overbuilt just about everything and has used debt in the process. Government intervention anytime economic growth appeared to be slowing in the past has meant the economy has never been able to naturally correct past economic excesses. Even now, the government is pursuing new policies to try to keep economic growth from falling. More and more, however, it seems like China may be close to the point where it has to accept the inevitable. Falling auto sales, increasing layoffs and Apple's recent warning its cell phone sales had slowed sharply in China are an indication real economic trouble is percolating in China. Chart 11 portrays the effect of a 1% slowdown in China's economic growth has elsewhere in the world and it is not very severe. A full blown recession in China would have a meaningful impact, but it is not clear even this be enough to put the US economy into a recession.

In the US, economic growth is expected to slow in 2019 due to the waning impact of the Trump tax cuts and tighter financial conditions brought about by the Fed's interest rate hikes, quantitative squeezing as the Fed (and other central banks) reduces the size of its balance sheet and by the negative feedback loop from the financial markets mini-meltdown at the end of 2018. In Chart 12 Goldman Sachs attempts to estimate the impact from these fiscal and monetary trends and concludes the impact will be to shave a little more than half a percent from US economic growth at the worst point in the first half of 2019. That is not nearly enough to cause a recession.

Chart 13

Global Economic Growth Momentum Slowing, But Still Good

Global Current Activity Index (CAI - YoY 5 Chg.)



Source: The Lyons Share

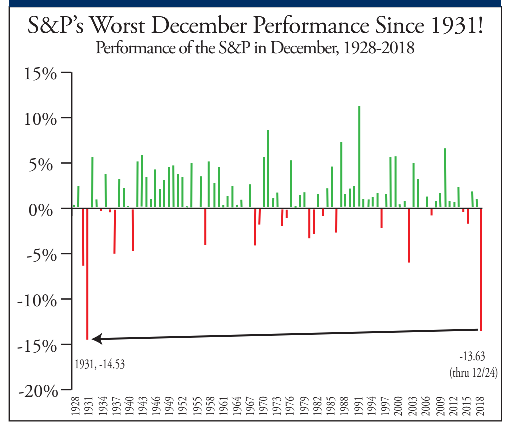
Chart 13 illustrates global economic momentum is slowing at the moment but remains at an overall healthy level. While there is certainly risk of a global recession forming in 2019, it seems to be overstated in the financial markets. Naturally, we will be alert for new information suggesting the financial markets did actually know more than imagined about the prospects for a global recession. For now, however, we believe a US recession will be avoided in 2019 but are concerned about economic weakness outside the US.

Keeping Your Head While Others are Losing Theirs

"You who are simple, gain prudence; you who are foolish, set your hearts on it." Proverbs 8:5

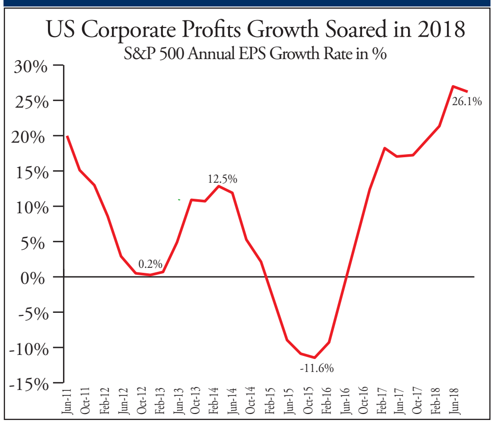
In the fourth quarter of 2018, panic developed in the financial markets largely due the Federal Reserve not fully understanding what a madman the financial markets can act like at times. While the Fed raised rates against a backdrop of a sound but slowing economy, the markets seemed to convince themselves the Fed was raising rates even as a recession had commenced. As a result, the S&P 500 suffered its worst December since 1931 by falling 9.2%! Chart 14 highlights this very odd and extreme occurrence as well as the normally high frequency at which the month of December generates positive returns for US equity investors. As can be seen, Mr. Grinch is rarely seen in the equity markets during the normal Santa Claus rally and there is about an 80% chance of positive returns in any given December. 2018 was very weird!

Chart 14



Source: Bloomberg

Chart 15



Source: Charlie Bilello, Pension Partners

It is even odder since the very strong earnings growth experienced during the year as seen in Chart 15. Spurred by the Trump corporate tax rate cut and a strong economy (itself largely the result of the Trump tax cuts), corporate profitability was soaring in 2018. Somehow, in the midst of such stellar results, the S&P 500 managed to fall 19.8% between September 21st and December 24th just narrowly missing officially falling into a bear market. This is one of the more remarkable things we have witnessed in our long investment career. Sure, the stock market can go down a little on basically no news, but for it to fall so hard with a backdrop of strong earnings is unprecedented. Now, the market is usually looking forward and earnings expectations for 2019 were falling from those lofty levels during the last quarter of 2018, but only from roughly 11% to 8%.

Table 2

The Market Must Have Thought There Was a Recession

The S&P 500 Fell by More than in an Average Mild Recession, Yet there Was No Recession S&P Price and EPS Change during Past 11 Recessions

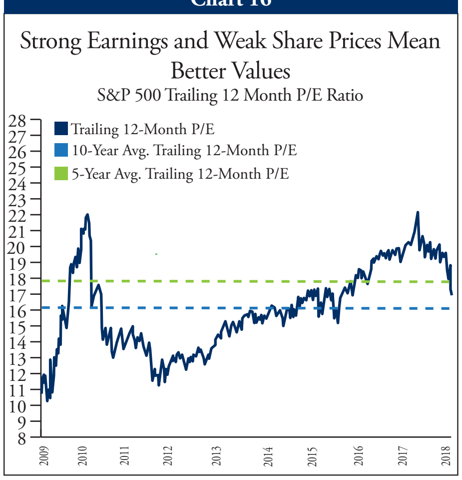
S&P 500 Peak	S&P 500 Trough	S&P 500 price decline peak-to-trough	S&P 500 EPS decline peak-to-trough	Earnings Decline
June-48	June-49	-17%	-3%	Mild
Jan-53	Sep-53	-11%	-12%	Mild
July-56	Dec-57	-17%	-22%	Deep
Jan-60	Oct-60	-13%	-12%	Mild
Dec-68	Jul-70	-34%	-13%	Mild
Jan-73	Dec-74	-46%	-15%	Deep
Feb-80	Apr-80	-15%	-5%	Mild
Nov-80	Aug-82	-27%	-19%	Deep
Dec-89	Oct-90	-16%	-26%	Deep
Mar-00	Sep-01	-37%	-23%	Deep
Oct-07	Mar-09	-56%	-45%	Deep

Average	-26%	-18%
Average in Deep	-33%	-25%
Average in Mild	-18%	-9%

We seperate recessions into DEEP and MILD based on whether S&P earnings fell by more or less than median amount over the past 11 US recessions

Source: Bloomberg, JP Morgan

Chart 16



Source: FactSet

This overwrought reaction to a relatively small retracement in 2019 EPS expectations is reflected in Table 2 where we describe the changes in the S&P 500's price level and S&P 500's earnings during past recessions. Basically, the drop in the S&P 500 between September 21st and December 24th was a little more severe than what has occurred in the average mild recession in the past, and yet we have not had a recession or even anything remotely resembling a recession. As also can been seen, S&P 500 earnings fell by 9% during those past mild recessions yet the current expectations is for earnings to increase by almost that same amount next year.

Moreover, because corporations were making so much money in 2018, they bought back a record amount of their shares. So, even in the face of this strong buyback demand for shares, the market still fell. Could this have occurred simply because of the possibility of a Fed monetary policy mistake? We believe that is unlikely and think a new, very large class of investors (CTA's and risk parity funds) using short term trading techniques may be mostly responsible for this unusual reaction.

Chart 17

Source: FactSet, Goldman Sachs Global Investment Research

The end result of this madness is stocks are cheaper than they have been in a while (Chart 17). Rapidly rising earnings and falling share prices is a good combination for long term investors. And while good values can be found now in the US as a result, even better values are now showing up outside the US. While it may still be a bit too early to take advantage of these bargains, Chart 18 shows the emerging markets might be close to a point of maximum pessimism which is always a great entry point for long term investors.

Cautiously Optimistic Equities Will Return to Their Winning Ways in 2019

"I press on toward the goal to win the prize for which God has called me heavenward." Philippians 3:14

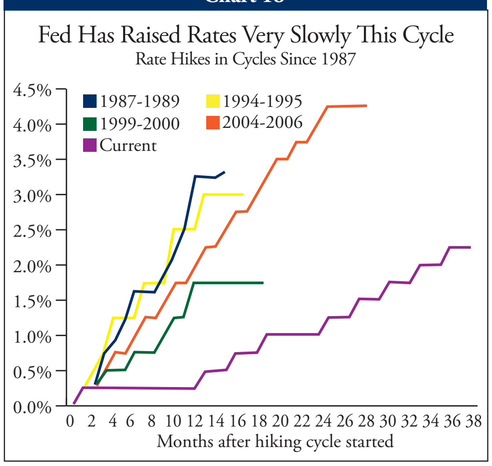
After such an unusual year for all financial assets - one in which every asset class and every style of investing, from high risk to very conservative, lost money (Table 3) – it would be easy and natural to respond by taking a very conservative stance until things settled down and historic norms started being reliable again. Instead, at Stewardship Partners, we believe it is better to take advantage of the uncertainty these trends have created and take a cautiously optimistic stance toward the longer term. The downturn in share prices, coupled with the rapid earnings growth means that shares are now valued more attractively to long term investors.

Table 3

No Investment Approach Worked in 2018!
Total Returns from Different US Asset Allocations 2009 – 2018

Category	Stocks%/Bonds%	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
US Stocks	100/0	26.4%	15.1%	1.9%	16.0%	32.3%	13.5%	1.2%	12.0%	21.7%	-4.6%
Aggressive Allocation	80/20	25.8%	16.8%	-1.7%	15.0%	22.4%	6.7%	-1.1%	7.8%	20.1%	-7.9%
Growth Allocation	60/40	19.0%	11.1%	1.1%	11.4%	15.7%	7.0%	-1.1%	6.7%	15.8%	-5.8%
Moderate Allocation	40/60	13.2%	7.9%	2.3%	8.4%	10.2%	5.3%	-1.3%	5.7%	11.6%	-3.9%
Conservative Allocation	30/70	8.0%	7.4%	4.4%	6.4%	6.6%	4.0%	-1.0%	5.0%	9.7%	-3.1%
US Bonds	0/100	2.9%	5.3%	7.7%	3.9%	-2.1%	5.8%	0.6%	2.5%	3.6%	-0.1%

Chart 18

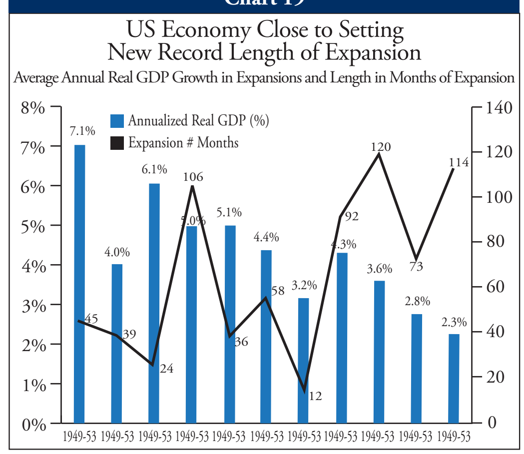


Source: Federal Reserve Board

While the risk of recession is real, it seems overstated by the financial markets, which provides further opportunity for shorter term gains as investors calm down. Moreover, the Fed has already gone out of its way to indicate to investors it has no plans of creating a recession and will be very patient before raising interest rates again. As a result, there has already been a very significant bounce in share prices since the lows reached on December 24th which has already eradicated 2018's losses We expect equities to remain volatile but we suspect the tendency will be for share prices to rise in 2019 as recessionary fears dissipate, trade tensions ease and the government partial shutdown ends.

The lasting impact of the Great Recession is evident in the way the market behaved in 2018. At the first whiff of recessionary fears, investors grew excessively wary. When the Fed Chairman indicated in October there was still many interest rate hikes ahead, panic broke out, even though it is quite obvious the Fed does not desire to cause a recession and would adjust its policies accordingly if a real recession threat arose. Chart 19 also illustrates how gradual the Fed has been in raising interest rates since this tightening cycle started in 2015 relative to other tightening cycles in the past. Unlike the market's fears, this Fed has behaved cautiously as they has sought to unwind the unusually high degree of monetary accommodation it had put in place to fight the forces of deflation post the 2008 financial crisis. Despite this, investors clearly remain on edge and that could lead to more volatility.

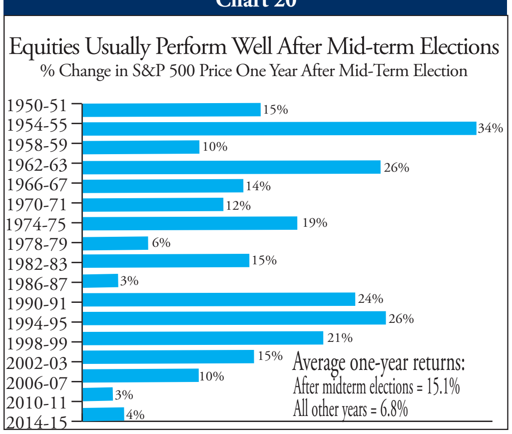
Chart 19



Source: Charlie Bilello, Pension Partners

Despite this latest market rebellion against the Fed's recent interest rate hike, we believe market historians will one day remark favorably about how the Fed steered the US, and to a certain extent the entire world, through the decade after the Great Recession. US economic growth has been slow but steady and we are now poised to set a new record for the length of an economic expansion (Chart 20). We would be surprised if the US economy faltered into a recession before that record was set and maybe for a considerable period thereafter.

Chart 20



Source: BofA Merrill Lynch Global Fund Manager Survey

We also suspect the market may begin to behave more normally in 2019 as it would be hard to sustain the oddities seen in 2018. For example, while the market did not rise in the post-election period last year as it had in the 18 previous mid-term election years, we suspect it will keep its record unblemished for having positive returns one year following a mid-term election. As can be seen in Chart 21, the S&P 500 has risen by an average of 15.1% in the year following a mid-term election compared to just 6.8% in all other years. Moreover, there have been 24 occasions where the percentage of stocks above their 50 day moving average has fallen to 2.8% or lower since 2001. This happened again on 12/21/18 when the percentage reached 1.2%. In each previous case, stocks were higher one year later by an average of 23.4%. While fear remains elevated, the outlook is favorable.

Nevertheless, there is need for caution as long as the trend of global economic growth has not been established as clearly positive. Shares outside the US are looking very attractive for the first time in years, but we are maintaining our focus on US equities until we are more confident Europe and the China can avoid deeper economic problems.

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 *<u>justice and mercy for the defenseless</u>* 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 *<u>justice and mercy for the poor</u>* 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 *<u>compassion for those addicted and/or engaged in sinful lifestyles</u>* 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 *<u>protect marriage and the family</u>* 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, Salesforce.com, and one we avoid, Apple. Salesforce.com is a holding in some Stewardship Partners portfolios while we actively avoid ownership in Apple 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 – Salesforce.com – Going Well Beyond the Norms to Help Others

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

Salesforce.com is a relatively young company having been founded in 1999 by former Oracle executive Marc Beinoff. Benioff, a larger than life personality who is a natural salesperson, teamed up with three software engineers who wrote the initial software to help companies control and manage their sales teams. The company essentially created and still dominates what is known as the customer relationship management (CRM) software business. Currently the firm boasts more than 150,000 clients, mostly small and medium size businesses. No one client accounts for more than 5% of its sales and 70% of its revenues are currently obtained in the US. Its CRM software allows clients to more easily manage their sales, servicing and marketing efforts over a highly secure cloud-based system that is so easy to use the company claims an organization does not even need an Information Technology department to set it up or use it (although we bet it still helps to have one!). Its biggest product is its Sales Cloud business which generates $3.5 billion in revenues followed closely by Service Cloud produces $2.8 billion of the firm's total of $10.5 billion in sales. The company is growing quickly via both rapid organic sales growth and acquisition of companies providing complementary software services for its clients. One of its latest initiatives is the use of artificial intelligence in its systems to help its clients better be able to predict their client's needs and prepare sales proposals that will prove more effective. Perhaps not surprisingly, Salesforce.com spends 45% of its own revenues on marketing. San Francisco-based Salesforce.com went public in 2004 and the company was added to the S&P 500 Index in September 2008.

When Marc Benioff founded Salesforce.com he was very intentional about creating a corporate culture which would embody the values of what Salesforce.com refers to as Ohana, the Hawaiian term for family. The term represents the idea that families are bound closely together and are responsible for one another. This concept of Ohana has been central to Salesforce.com's stunning success as the company leaders champion it, its managers are measured at how well they promote it and the company's 30,000+ employees are charged with embracing it and protecting it. Salesforce.com believes its Ohana extends beyond just its employees to all of its stakeholders including its suppliers, partners and the communities in which it operates. Salesforce.com expects everyone in its Ohana to uphold four values: Trust, Customer Success, Innovation and Equality. The company believes Trust is their key value. They promote it by communicating honestly and openly with their employees and all stakeholders, empowering them to offer ideas and opinions. Recognizing their customer's success translates directly into Salesforce.com's success, the company seeks to achieve extraordinary things for its clients. As one employee says, Innovation isn't just about our products and our business model — it's about the mindset of every single person in our Ohana." Regarding their value of Equality another employee states, "I feel blessed to work for a company with values that align with mine and that stands by equal pay for equal work." Salesforce.com also seeks to drive four behaviors in its Ohana: Integrity, Transparency, Alignment and Accountability. Not surprisingly, Salesforce.com has won many awards. It has been on Fortune's Most Admired Companies List each of the last six years and has been named to Forbes Most Innovative Companies in the World list for the last seven years.

Clearly, for a company with such an overwhelming emphasis in its corporate culture on family, Salesforce.com treats its employees exceptionally well. In terms of financial rewards, the company regularly benchmarks their compensation plans versus competitors to assure they remain competitive in the red-hot market for technology talent. They include a very generous stock purchase plan and match their employees' 401(k) plan contributions at an above average rate. Salesfore.com also assures that all employees are paid equally for equal work and runs annual assessments to make sure this is achieved. Additionally, the company provides a variety of life and income insurance options. We have never seen as broad an array of options for employees on the healthcare front and it is simply too massive to fully describe in the limited space we have here. Included in these is access to second opinions and a healthcare advocate. Regarding employee time off policies, again, Salesforce excels with an extensive list of benefits organized to be as big a blessing to their Ohana members as possible. Included among these benefits are 13 holidays, including 4 of which are floating holidays. Standard employees can actually use up to 40 hours of time off that they have not yet earned per year and management level employees are allowed to take off whatever amount of time they feel they need. Employees also earn one week towards a sabbatical each year and they can either take it each year or save it for the future. Salesforce.com also provides employees with $10,000 for adoption assistance, 26 weeks of paid time off when a new child is born and the ability to work a shorter work week for a period of time once the employee returns to work. The company also offers back-up and emergency child care, fertility benefits and provides $250 to new parents to help pay for take-out meals after bringing their newborn home. When you are an employee of Salesforce.com, there is little doubt that you feel the company is looking out for you.

Salesforce.com philanthropic activities are also among the best we have ever seen. Employees are given seven days of paid time off each year to volunteer at charities of their choice. Since the company's founding employees have volunteered millions of hours of employee time. The top 100 volunteers each year are given $10,000 to give to their favorite charity. Since its founding the company has committed to donating 1% of the company's equity, 1% of its employee time and 1% of its product to the communities it serves in. Since the company began what it refers to as its 1-1-1 model of philanthropy, it has given free products and services to over 34,000 organizations, given $200 million in grants to promote improve education and promote workplace development while contributing 2.6 million hours of employee time. Additionally, the company encourages other companies around the world to adopt their 1-1-1 model. Salesforce.com estimates more than 5,000 companies now embrace the model leading to more than $500 million in new giving in 94 different countries. Being a San Francisco-based, tech company, it will not surprise anyone that Salesforce.com supports homosexuality in a variety of ways, as almost all companies do now, but it also has employee support groups for veterans, disabled employees and for those who embrace religious faith.

Salesforce.com's numerous good works are, of course, no guarantee of long-term investment success. As Biblically Responsible Investors, however, the company's commitment to being an exemplary corporate citizen as well as its outstanding treatment of its employees 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 all those it comes into contact with and is an organization we can be proud to be known as part-owners!

The Bad – Apple – Pornography and Questionable Business Practices

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

While the shine has definitely come off of Apple's stock recently, it remains one of the most successful companies in US history. While its stock price has tumbled over the last year, it was the first stock ever to achieve a market capitalization of greater than $1 trillion. Its iconic products, most notably the iPhone which is the biggest contributor to its massive sales and profits, are beloved around the world. Fortune Magazine has ranked it as the Most Admired Company in the world for each of the last three years. Unfortunately, Apple is also involved in many activities which, as Biblically Responsible Investors, cause us to avoid investing in its stock. For example, many apps, books, audiobooks and podcasts with sexually explicit content are offered on Apple's iTunes online music store and many of these items are free. And one doesn't have to download anything to be confronted with sexually explicit images on iTunes. A lot of the cover art/icons for these apps, books, audiobooks and podcasts are very graphic. Despite the company's stated policy of not facilitating the distribution of adult content, the BRI Institute was easily able to find photography and graphic illustrations of nudity and sexual content on itunes.com. In fact, the company's own 17+ rating states that "sexual content and nudity" can be found in certain apps and other offering in the iTunes store. Clearly, Apple blatantly violates its own stated policy. Additionally, Apple has a history of questionable business practices including purposefully uploading new software to its customer's phones in order to drain their batteries and force them to upgrade into expensive new iPhones. More recently, the company has been in a dispute with Qualcomm, a company we hold in some Stewardship Partners portfolios, where it has refused to pay licensing fees it owes to Qualcomm. In the last few months, courts in both China and Germany have forced Apple to pull certain iPhones from its stores because of their unethical behavior in this matter.

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

Our Ultimate Goal – Funding the Lord's Work

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

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

Featured Ministry – Global Orphan Project

"Religion that God our Father accepts as pure and faultless is this: to look after orphans..." James 1:27 (NIV)

One of the clearest biblical directives to Christians is to provide care for widows and orphans. For Mike and Beth Fox, this command gained priority in their lives after a trip to Southeast Asia in 2003 when they saw wonderful people giving selflessly to help orphans found in refugee camps. As Beth Fox explained, "The experience really touched our hearts. Once we saw the plight of these children we just couldn't turn our heads, we couldn't look away. God pierced our hearts to make a difference with our life. We just surrendered our lives and said, 'God, whatever you have in mind for us, we're all in.'" Shortly afterward, Mike and Beth formed a ministry that today is called the Global Orphan Project. Over the years it has grown dramatically and the ministry is now meeting the needs of orphans, vulnerable children and others on three continents and ten countries. The Global Orphan Project views partnering with local churches as the optimal method of providing for the needs of the children they help. Needs identified by these local church partners are funneled through Global Orphan Project's CarePortal to prospective donors who hear the details of the particular child and can respond with a financial gift. Since March of 2015, when the CarePortal first went operational, the Global Orphan Project has had an economic impact of over $11.5 million for more than 31,000 children in the United States.

As the ministry has grown over the years, so too has its efforts to make a difference in the lives of orphans and other vulnerable children. Initially, its focus was largely on meeting the immediate needs of orphans. Over time, however, the ministry's leadership saw that its work could also help in orphan prevention. Here the ministry seeks to assist families to remain strong and united through job creation, education and community support. Many parents around the world are forced to choose between keeping their children and giving them an education - a chance to rise out of poverty. Global Orphan Project believes no family should ever have to make that choice and therefore has an education fund whereby gifts can be given to help educate a child or a family member so the cycle of poverty can be broken. The ministry has also learned the best form of orphan care is orphan prevention, and the best form of orphan prevention is a strong job. Accordingly, they set up a garment making company that specializes in t-shirts in order to provide jobs paying a living wage for those families that are at risk of failing. The Global Orphan Project partners with LIFE, a Haitian-owned manufacturing facility near Port-au-Prince, Haiti to produce its garments, which anyone can order from the GOProject.org website. Any profits generated by this enterprise are recycled right back into ministry projects. The Global Orphan Project also seeks to help connect the more than 400,000 children in the U.S. foster care system with Christians in local churches who are willing and able to help them. Outside the US, where government-sponsored foster care does not exist, the minsitry help local churches provide essential care and prevent parent-child separation.

Global Orphan Project is an impressive Christian ministry seeking to act on one of the clearest commands we as a church are given in Scripture. Its extensive and thoughtful efforts to help orphans and to prevent more from being created in the first place are commendable. The Global Orphan Project is also very transparent about its finances and is worthy of consideration for your financial support. Certain large donors have agreed to cover all of the ministries overhead expenses so that 100% of other donors' gifts can go directly to helping the needs of the orphans and families the ministry serves.

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 – Kingdom Advisors

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

Kingdom Advisors is a rapidly growing association of Christian financial professionals dedicated to communicating biblical wisdom to their clients, applying professional principles in their practices and living out their faith their marketplace in order to have a kingdom impact. The organization was originally founded by Larry Burkett as the Christian Financial Planning Institute in 1997. In 2003, however, Ron Blue took over leadership of the then 16 member organization and laid plans to significantly increase its size and impact. Fifteen years later, the now renamed Kingdom Advisors has 2,200 members and its impact continues to grow. Many local branches of the group are in operation across the country as well where members can minister to one another and work together to have an eternal impact on their communities. Additionally, members have begun to create affinity groups within Kingdom Advisors where financial advisors can join together with others who share their interests. The oldest such group is the Biblically Responsible Investing (BRI) Community Group which Stewardship Partners helped start. Other groups focus on charitable giving, attorneys and emerging advisors. Advisors from individual firms, such as Morgan Stanley and Merrill Lynch have also organized within Kingdom Advisors.

Members of the group are also encouraged to pursue the Certified Kingdom Advisor designation which requires participation in a rigorous study program designed by Ron Blue, founder of the largest Christian financial planning firm in the world. Kingdom Advisors' professional training is designed to assist financial professionals in becoming disciples of Christ who are equipped and motivated to disciple others in comprehensive biblical financial stewardship. Hundreds of Kingdom Advisors members have already completed these studies, including some of the most respected financial advisors in the country. If you are a Christian financial advisor, you need to be a member of Kingdom Advisors!

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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