STEWARDSHIP PARTNERS

MARKET COMMENTARY

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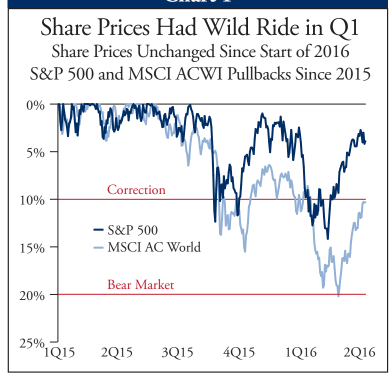
Off to Great Start Versus a Volatile Market That Ultimately Went Nowhere

"So the Pharisees said to one another, 'See, this is getting us nowhere.'" John 12:19

While Stewardship Partners clients have achieved very good performance this year, the first quarter of 2016 was quite a roller coaster for the average investor. Stocks plunged right from the outset and by January 20th had fallen into correction territory (a drop of more than 10% from the previous high). After a brief but sharp recovery from that point, a slightly lower low was established on February 11th. That marked a 14.2% decline from the previous high, which was the third steepest correction since the bull market began in 2009 (Chart 1). By the end of the quarter, however, the S&P 500 had almost made it back to breakeven on the year, although it remained 3% lower than its high point attained on May 21, 2015 and almost exactly at the same level it started 2015. So, while there was a lot of volatility in the first quarter, and really since the beginnning of 2015 when we first became cautiously invested, the S&P 500 has really not advanced at all. Even this tepid performance, however, allowed the US market to meaningfully outperform falling markets outside the US and in the emerging markets since the beginning of 2015 (Table 1). Fortunately, Stewardship Partners' Global portfolios have been overweight the US during this time. In the first quarter, just about everything went right in all of our portfolios. We remained hedged until January 20th and then quickly got fully invested very close to the market's low. We also bought many of the right stocks for the following rebound. By mid-March, we were so far ahead of the indices the wisest course of action was to take some profits and again position the portfolios more cautiously. After all, many of the issues that made us position the portfolios cautiously had not been totally resolved. As a result, we ended the quarter positioned much as we started it but fortunately achieved very attractive absolute and relative returns for our clients.

Chart 1



Source: Bloomberg

Table 1

1Q16 Total Returns

US Indices	1Q16	5y ann
S&P 500	1.3%	11.6%
S&P 500 Value	2.2%	10.0%
S&P 500 Growth	0.5%	13.1%
NASDAQ	-2.4%	13.2%
S&P 400 (Mid Cap)	3.8%	9.5%
S&P 600 (Small Cap)	2.7%	10.4%
Treasury Bonds	3.3%	3.7%
High Grade Corp. Bonds	3.9%	5.2%
High Yield Corp. Bonds	3.2%	4.7%
Gold	16.1%	-3.0%
Global & International Indices		
MSCI World	-0.3%	6.5%
MSCI EAFE	-3.0%	2.3%
MSCI Euro	-2.5%	0.6%
MSCI Far East	-5.3%	3.8%
MSCI Japan	-6.5%	4.0%
MSCI Emerging Markets	5.7%	-4.1%
US Economic Sectors		
Energy	4.0%	-2.4%
Materials	3.6%	4.8%
Industrials	5.0%	10.8%
Consumer Discretionary	1.6%	17.1%
Consumer Staples	5.6%	15.2%
Health Care	-5.5%	17.6%
Financials	-5.1%	8.7%
Information Technology	2.6%	13.8%
Telecom	16.6%	10.7%
Utilities	15.6%	13.7%

Source: Bloomberg

We are very grateful for this good performance. Most money managers really struggled during the first quarter as a historic low of just 19% of all money managers were able to outperform their indices. Only 6% of growth managers beat the index in the first quarter. Given the higher than normal volatility in the markets, it is no wonder why so many struggled to produce good returns. Our success can be largely attributable to optimally implementing one of our core investment principles of investing as close as possible to the point of maximum pessimism. In this case, we picked that spot perhaps as accurately as we have ever done and it greatly contributed to our excellent first quarter returns. Moreover, we not only bought when the market was at a point of maximum pessimism, we also bought several stocks that were at points of extreme maximum pessimism. Those stocks recovered very rapidly thereby boosting our returns. Since the market jumped so rapidly, it moved from a point of maximum pessimism to something closer to a point of maximum optimism very quickly. While our selling and returning to more cautiously positioned portfolios was not as ideally timed as our buying, it was close enough and the overall results were very good. We certainly felt the unmerited favor of the Lord during the first quarter and are very thankful we could get off to such a fast start in 2016.

The markets were volatile because the threats we have been highlighting in our quarterly commentaries since the beginning of 2015 still remain. Economic growth has been faltering, at best, in most of the world and corporate earnings have been slowly ebbing from previous highs. Profit margins have been under pressure in several sectors of the economy, most noticeably energy and commodity companies. The threat of increasing defaults in these areas, rising concerns that both China and Brazil were losing control of their economies, tightening credit conditions, among other concerns were real and remain largely unresolved. Still, the worst fears on all of these fronts were avoided in the first quarter and this is largely why the markets recovered so quickly. Nevertheless, it is no time to get complacent and we don't plan to do so as both old dangers linger and new opportunities will arise.

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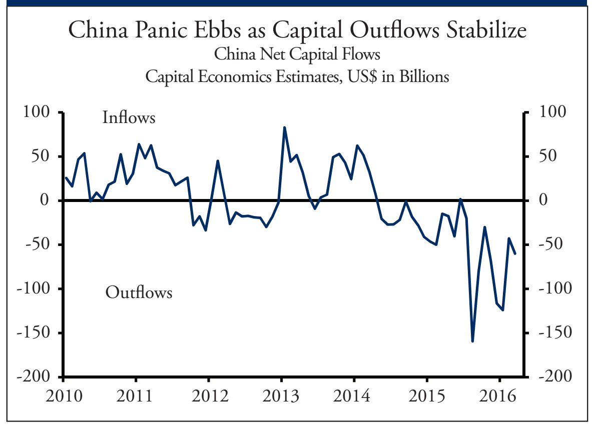
Global Economic Growth Has Dodged Bullets But Is Still in a Firefight

"He rescues me unharmed from the battle waged against me . . . though many oppose me." Psalm 55:18

Global economic growth has been mostly positive for a long time now. Coming out of the Great Recession in 2008, central banks implemented a wide array of unconventional policies that have thus far proved effective at avoiding a highly destructive deflationary global economic collapse. Some of those policies, however, may have provided short term relief at a cost of greater difficulty at a later date. Indeed, it was the fear China's economy was rapidly unraveling, after years of massive infrastructure investments and sizable debt accumulation, which contributed greatly to the financial markets' scare early in the first quarter. Investor focus became particularly concentrated on the amount of money flooding out of China (Chart 2) as an indication of an impending burst in the Chinese economic bubble. Fortunately, while outflows continue, the trend stabilized thereby allowing investors to breathe a big sigh of relief as that bullet was, perhaps only temporarily, dodged. There are a lot of adjustments to the monthly data that need to be evaluated and changes in the value of the US dollar also impact the size of China's foreign currency reserves, another important data point we continue to monitor. The intensity of the market's concern over China's economy has lessened but it would not take much for it to return to panic levels again, particularly because the lack of transparency in China's economy and also due to the huge debts the nation has built up.

Chart 2



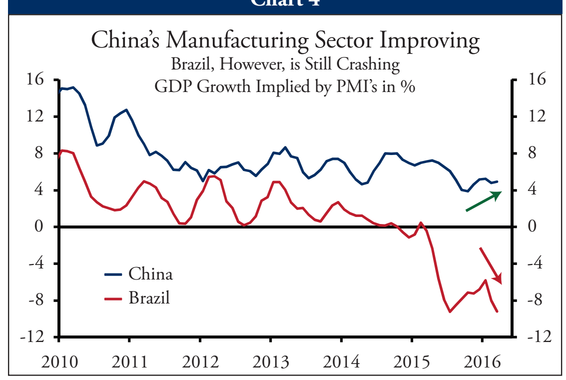
Source: Capital Economics

Chart 3

Source: Capital Economics

Another reason investor fears about China's economic bubble bursting have fallen is there are now some signs the long trend in slowing economic growth may actually be ending. A close look at Chart 3 reveals an independent group's measure of Chinese economic growth has been stable at around the 4% level for over a year. While the official GDP measurement coming from the government is still falling from a higher level, it is likely this measure is falsified. Other developments also suggest some of the economic policy easing China has done in the past year may also be starting to bear fruit. Rising iron ore and home prices as well as improved manufacturing measures (Chart 4) are just a few of many Chinese economic indicators now showing improving trends. Even China's currency strengthened a little so far in 2016, but we do not expect this to last. Better Chinese economic growth would be very welcome as it will ease the country's unavoidable burden of dealing with bad debts and allow investors to sleep better at night. While China may experience a short term improvement in economic growth, the debt burden will weigh heavily on its long term growth prospects. Still, the best possible outcome for investors is for China to address its bad debts problem slowly over time rather than have it lose control of the situation resulting in a crash of its financial system as many feared was beginning to happen just a few months ago.

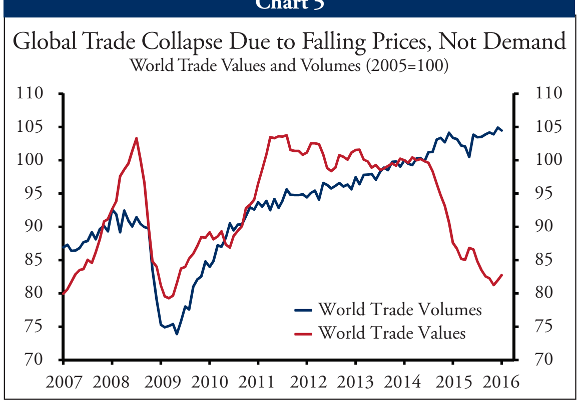
Chart 4



Source: Capital Economics

While Chart 4 gives up hope in regards to China, Brazil's economy is clearly melting down at the moment. Brazil's problems can be traced to poor economic policy choices by its socialist leaders, graft and corruption among those government leaders and uncertainty surrounding the possible impeachment of the nation's president as a result of all of the above. Unlike other emerging markets, it has yet to show any sign of an economic turnaround. Increasingly, it seems possible that a destabilizing crash could occur in Brazil's economy. This would totally be an unforced error on the part of the current ruling class but in the president's quest to maintain power she appears willing to sacrifice the economy. A Brazilian economic meltdown would not be as significant to global investors as one in China, but it might still rattle the financial markets for a brief period of time. There is not much time left for Brazil to get its act together in order to avoid a truly painful economic collapse.

Chart 5

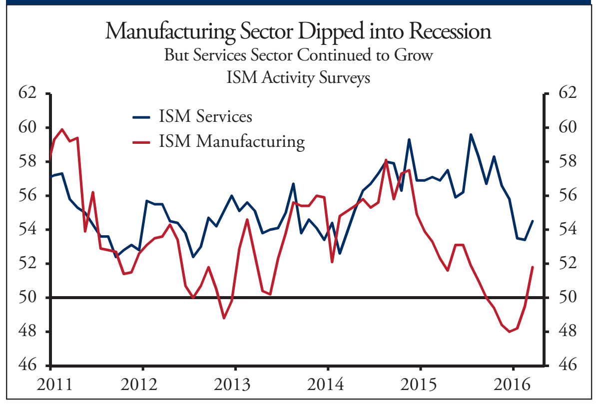


Source: Capital Economics

Another worry of investors has been the collapse in global trade (Chart 5). But this collapse had more to do with falling oil and commodity prices than a lasting deterioration in demand. When commodity prices recover, we should see a big bounce in global trade which will positively impact global GDP growth, particularly in the emerging markets. Oil and other commodity prices may have already found their lows for this cycle. If so, economists may be surprised to find future economic growth beating their estimates, something that has not happened in quite a while.

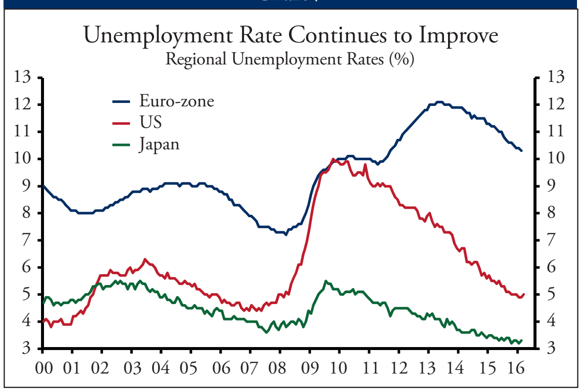
Certainly, the world's developed nations could use a surprise boost in economic growth. Japan's economy cannot find a way to exit its low deflationary growth mode despite any number of extreme policies put in place to bring that about. Europe earlier showed some signs of economic hope but that has largely dissipated now. Renewed banking problems in Italy are raising concerns and even Deutsche Bank is coming under greater investor scrutiny. While it is still too early to sound the alarm bells about a new round of European banking problems, we are paying attention. Moreover, the region is facing political turmoil as a result of the refugees from war-torn Middle Eastern nations and the possibility of the United Kingdom leaving the European Union after a vote in June. We continue to have no direct exposure to Japan in our portfolios and remain heavily underweight Europe because of these and other issues.

Chart 6



Source: Capital Economics

Chart 7



Source: Capital Economics

The financial markets' brief panic earlier this year was not only about China. After a very poor fourth quarter GNP report in the US, many investors were becoming anxious the long but tepid US economic recovery might be slipping into recession itself. Clearly, the manufacturing portion of the US economy has effectively been in a recession already (Chart 6). This was largely due to the impact of the shale oil sector's retrenchment in the face of Saudi Arabia's efforts to crush it via lowering oil prices dramatically. The stronger dollar also hurt our manufacturers' export prospects. Recently, forecasts for US GNP growth in the first quarter have again been plummeting and now it seems economic expansion will once again be barely positive. Still, the economy outside the manufacturing sector remains strong as seen in the services sector PMI and low unemployment levels (Chart 7). While US growth may remain low for a bit longer, there are signs the manufacturing sector has begun growing again and we do not believe the US economy is at great risk of slipping into a recession at this time. But we will be paying very close attention since a recession could swiftly lead to a US budget crisis. Declining tax receipts would quickly translate into a sizable budget deficit which, in turn, would boost the currently acceptable debt to GNP percentage to a more worrisome level. Both the US and the global economy have dodged some bullets in recent months, but there is still a firefight underway. The intensity of the battle has diminished lately but the enemies of prosperous economic growth may just be in a tactical retreat while looking to re-arm and find reinforcements. We are, at best, cautiously optimistic a period of calm may be near.

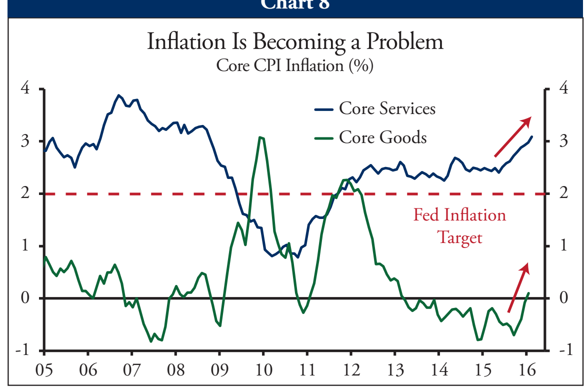
Diverging Central Bank Policies Create Confusion On the Battlefield

"In the following directives I have no praise for you, for your meetings do more harm than good." 1 Corinthians 11:17

In the firefight between growth and recession as well as inflation and deflation, it is the world's central bankers who possess the most sophisticated and consequential weapons. Over the course of the economic recovery since 2008, central banks have deployed a wide array of never-before-seen weapons to help end the Great Recession and keep the deflationary beast at bay. The US led the world in using these new approaches to monetary policy, deploying them early and often. This led to the US economy recovering faster than those in Europe and Japan.

By getting a late start, Europe and Japan had to roll out even larger and more innovative monetary policies and they may need to do even more in the future. In the US, however, QE ended about eighteen months ago and the Fed even made its first timid effort to raise interest rates last December. While Fed Chairwoman Yellen's recent dovish pronouncements surprised the markets and helped propel financial asset prices higher at the end of the first quarter, it is becoming clearer each day the Fed may need to become more hawkish than the market is currently anticipating in the months ahead.

Chart 8

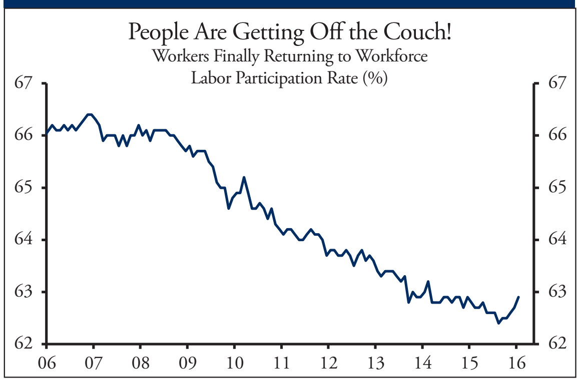


Source: Thomson Datastream, Capital Economics

The principal reason for this is an upswing in some inflation measures above the upper end of the Fed's targeted range. As shown in Chart 8, core services inflation has been above that level for some time and has recently broken out above the 3% level. Overall core inflation has been held back by the recession in the manufacturing sector so far, but that too has now turned higher. Measures of wage growth have also risen above 3%, further raising the risks the Fed might be falling behind the inflation curve. Various Fed governors, however, have spoken about a willingness to tolerate higher inflation for a time to ensure the US economy has finally broken away from any residual deflationary forces. Despite this and Yellen's dovish orientation, unless inflationary trends soon reverse, the pressure will build rather quickly for more Fed rate hikes and further steps to normalize US monetary policy.

Further prodding the Fed into action is continual improvement in the labor market. The unemployment rate is now very close to the Fed's full employment estimate of 4.8%. The only reason it has not gone beyond that has been the rebound in the labor participation rate (Chart 9), itself a sign of strength in the labor market. As the economy has gained strength, workers are getting off the couch and returning to the labor force. While many of these workers are taking low paying positions, they are nevertheless coming off the welfare rolls and becoming productive citizens again. Should oil prices continue to bounce off the lows and the manufacturing sector's recovery accelerates, the labor market will tighten very quickly necessitating a sharp hawkish turn in Fed policy. This would cause the value of the US dollar to spike again, thereby depressing inflation and commodity prices, but also putting additional pressure on the nascent recovery in the emerging markets. We believe the Fed has dragged its feet on normalizing US monetary policy in part to give the emerging markets as long as possible to recover before being buffeted by a stronger US dollar. It is not clear how much longer the Fed can delay raising rates meaningfully, but if current positive US employment and negative inflation trends persist, it will not be long. The financial markets, particularly the emerging markets and any nation with a high exposure to commodities, may suffer for a while as investors adjust to the potential change in the Fed's current "only gradual increases" policy.

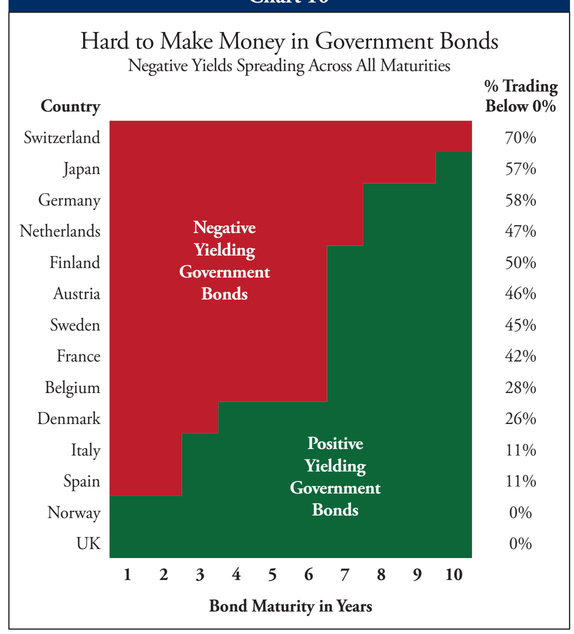
Chart 9



Source: Thomson Datastream, Capital Economics

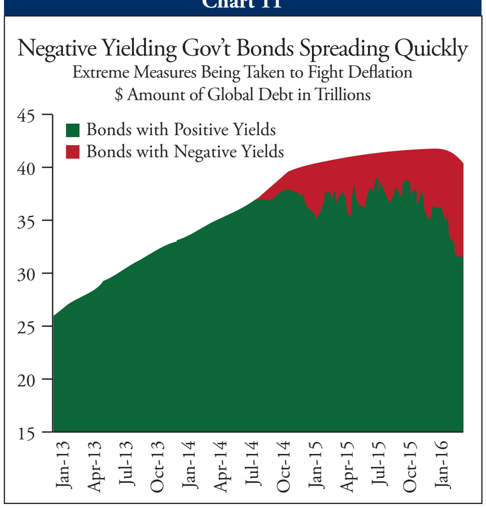
While pressure is building to normalize monetary policy in the US, this is quite different than what the European Central Bank (ECB) and Bank of Japan (BOJ) are facing. In each case, deflationary forces are still threatening and economic growth continues to stumble along at low or sometimes negative rates. Japan is likely to post negative economic growth in 2016's first quarter. In Europe, a banking crisis is brewing in Italy due to bad debts piling up again. Across Europe, banks have reported very poor financial results in recent quarters and their stocks have lagged well behind the indices. With the ECB's extraordinarily loose monetary policies now promoting negative interest rates, the situation has become somewhat bizarre. Basically, the ECB is willing to lend money to banks at negative interest rates such that the bank can, in turn, lend money to their customers at a lower negative interest rate and still make a little money on the spread. You read that correctly, banks in Europe are paying customers to borrow money, not the other way around. Recently in Germany an ad was seen where a bank was offering a 24 month loan at a -1.0% interest rate! Some banks are offering mortgages at negative interest rates as well. Clearly, this is extreme monetary policy and highlights just how difficult it has been for the ECB to promote growth and stave off deflation. In the financial markets, negative interest rates abound as well. Chart 10 highlights the very peculiar situation where Swiss government bonds now have negative yields all the way out to maturities of 10 years while many other European countries government bonds also have negative yields. So, investors looking for safety in government bonds have to pay the government for the privilege of loaning the government money! Moreover, the ECB's QE program also now involves purchasing corporate as well as government bonds. These remarkably accommodative monetary policy actions may be necessary but one wonders what the still unknown consequences of these radical moves might be.

Chart 10



Source: Bloomberg, Deutsche Bank

Chart 11



Source: BofA Merrill Lynch

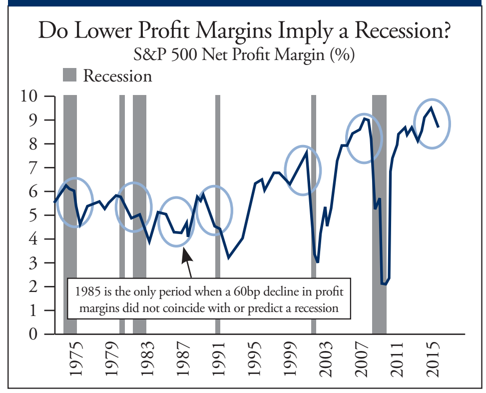
Negative yields have now spread elsewhere in the world, notably to Japan. Chart 11 shows negative yields have become commonplace now in the world's $40 trillion debt market. While the US briefly experienced negative yields on short term bonds in the midst of the depression, the world has never seen anything like this before. Even with this unusual policy, there has not yet been much of a positive impact on economic growth or deflationary forces, leading some economists to call for what Ben Bernanke once described as "helicopter money". That is, a policy where money is given from the central bank directly to consumers. Given QE effectively promoted inequality by enriching wealthy people, many believe giving money to those in the lower financial classes might be a good way to both even the playing field and stimulate the economy. While you might laugh at this now, it could become reality. For investors, it is not at all certain what the short and long term ramifications of these radical policies will be. Nevertheless, we will be vigilant in our analysis and are prepared to take advantage of any opportunities and avoid any risks these policies may create.

Will Bulls be Cut Down in the Battle or March to Victory?

"The horse is made ready for the day of battle, but victory rests with the Lord." Proverbs 21:31

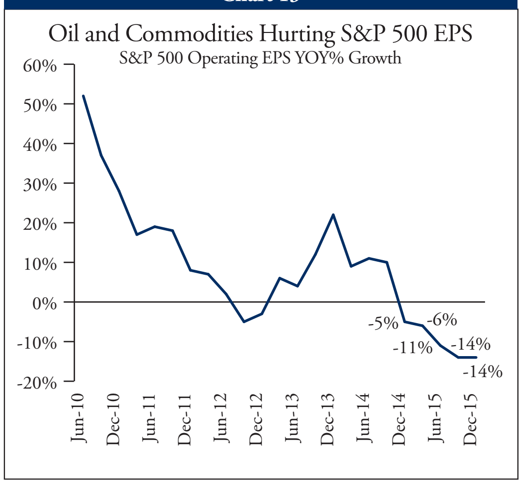
While the big guns the world's central banks are deploying will undoubtedly have a significant impact on the battle between bulls and bears, there is a chance the markets will lose confidence in the central bankers ability to be good stewards over the global economy. If this were to come to pass, the bears would almost certainly have the upper hand for a while. For now, however, investors continue to give these market overlords the benefit of the doubt. But there is still plenty of ammunition for the bears to make a negative case against share prices. For example, in the US profit margins have been faltering lately from historically high levels. As seen in Chart 12, such profit margin contractions have often preceded recessions. Lower profits often cause CEOs to cut costs in an effort to restore earnings to previous levels, thereby reducing employment and closing facilities. In this case, however, we are not at all certain this will a recession will be triggered in the US. As we have noted, there has been a recession in the manufacturing sector of the economy due to the collapse in the oil price and the strong dollar. We believe these accounts for virtually all the profit margin decline. Overall employment levels are strong and consumer spending seems unlikely to plunge, so a recession is unlikely.

Chart 12



Source: Thomson Reuters, Barclays Research

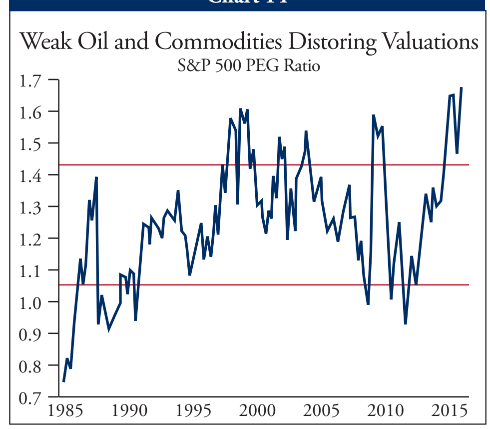
Chart 13



Source: Pension Partners

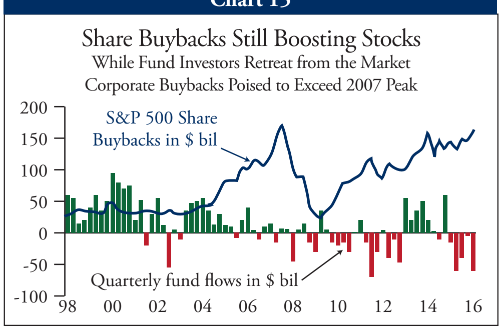
These profit margin pressures in the manufacturing and commodity sectors have translated into falling earnings for the S&P 500 over the last five quarters (Chart 13). The strong dollar has also hurt the many companies in the index with significant overseas operations. But again, these lower earnings likely overstate the true earnings picture as only a small part of the overall economy is suffering from a very nasty earnings setback while the vast majority of companies continue to perform well. This is one reason why shares prices have been resilient despite the turmoil in those sectors of the economy.

Chart 14



Source: Thomson ONE

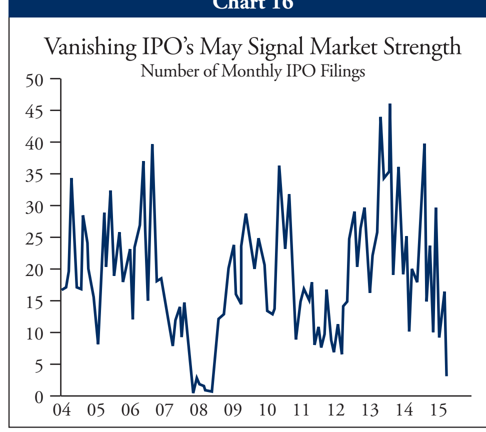
Chart 15



Source: Bloomberg

This situation where terrible earnings in a narrow sector of the US economy are distorting the overall picture can also be seen in various valuation measures. Given the lack of earnings in the energy and commodity sectors, these stocks are currently trading at high valuations on their low earnings, as is typical when times are bad. These high valuations are incorporated into the averages and bias them higher. Chart 14 highlights the high level of the price earnings ratio to long term growth rate ratio (PEG Ratio) for the S&P 500. In this measure of valuation, both the numerator is biased too high as we have already noted and the denominator is driven too low by the low expected earnings growth for those same companies. Both the earnings of the oil and commodity sector and these company's expected long term earnings growth rates will eventually bounce back and this distortion will be removed over time. While US stocks are not cheap, valuations are currently being distorted higher by what will likely turn out to be temporary factors.

Chart 16



US stock prices continue to be bolstered by large and growing share buybacks. While many investors have retreated from the market, as can be seen by the negative trend in fund flows since the beginning of 2015 (Chart 15), the growing amount of share repurchases by corporate America has more than offset that lost demand for equities. While it is encouraging to see this confidence in their company's prospects by corporate chieftains, we would note these buybacks appear to be increasingly funded by debt. As a result, this prop for the market could disappear quickly if financial conditions worsen. It is also worth noting that while demand for shares has risen due to buybacks, the supply of shares has also fallen as Initial Public Offerings (IPO's) of stock have fallen off sharply in recent quarters (Chart 16). Vanishing IPO activity has historically been a good predictor of future strong market returns as it indicates investor sentiment is overly bearish and a lot of capital is on the sidelines ready to be reinvested when spirits brighten.

The Battle Rages On

"All day long the battle raged, and the king was propped up in his chariot" 1 Kings 22:35a

Bulls and bears have been in quite a struggle for market dominance lately. Since the start of 2015, however, the bears have a slight edge from a global perspective as shares prices are lower and, at one point, had fallen by 20%, officially putting the MSCI World Index in a bear market. The market has recovered meaningfully since then, but it remains unclear if this recent gains will be lasting. Recent trends in economic growth and earnings have not been very supportive stronger share prices. Central bankers are doing their utmost to keep up the fight against deflation and recession but the success of their highly unconventional policies has not yet been determined. Still, investors can take some comfort in the historrical precedent as shown in Table 2. After entering a bear market, the subsequent returns over one, three and five years have almost always been worthwhile. While this is by no means a guarantee of future success, the odds are certainly tilted in favor of a better outcome assuming the bear market is over. Should share prices begin to slide to new lows, however, then it may take a little longer to see positve results. While we are growing in confidence that the worst might be over, we are not yet ready to let down our guard as bullets are still flying.

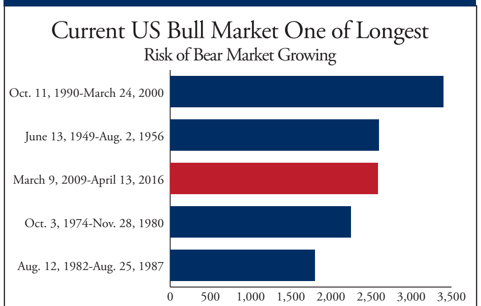
Table 2

Better Times Ahead after the MSCI World Bear?
Stocks Typically Rebound Nicely After a Bear Market
MSCI World Index Bear Markets 1973-2016

		Performance After Stocks Fall 20%		
Dates	**Drawdown**	**1 year**	**3 years**	**5 years**
1973-74	-40%	8%	18%	54%
1987	-20%	28%	24%	42%
1990	-24%	25%	51%	87%
2000-02	-45%	-4%	6%	39%
2007-09	-54%	-17%	-2%	26%
2011	-26%	22%	67%	68%
Average	**-35%**	**10%**	**27%**	**53%**
2015-16	**-20%**	**?**	**?**	**?**

Source: Returns 2.0

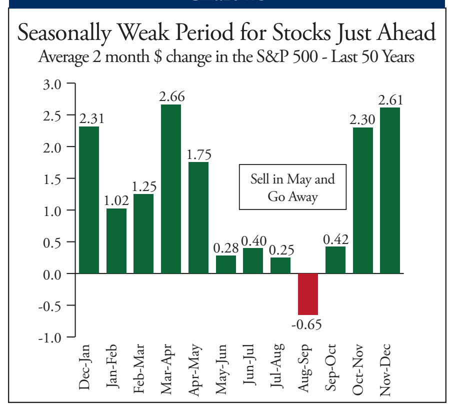
Chart 17



Source: Bloomberg

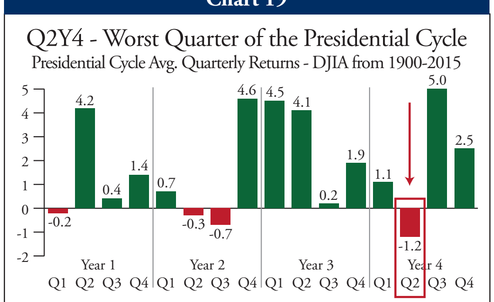
Given the superior economic performance of the US, the fall in the S&P 500 qualified only as a correction in an ongoing bull market. That bull market will soon be the second longest one ever without enduring a 20% drawdown (Chart 17). Since we believe a recession will be avoided in the near term outside of some exogenous event triggering it (i.e. - terrorism, natural disaster), we suspect the bull market will eventually take the second place trophy. Whether it ever extends its run to take the grand prize, we will leave to another Quarterly Commentary. Nevertheless, we would be foolish not to be aware of the rising probability of a US bear market just based on how long in the tooth the current bear market has become.

Chart 18



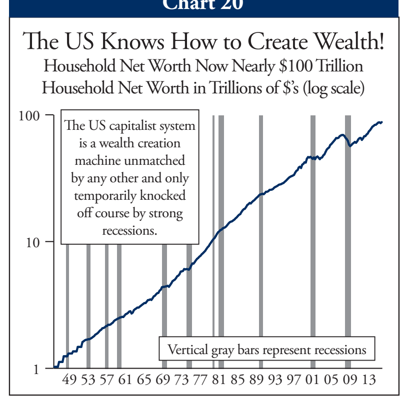
With the US market's big rebound from the February 11th low, a number of indicators suggest that, at best, moving sidewards may be we can hope for at this time. The move higher, fueled by considerable short covering by speculators and an unexpectedly dovish Yellen, has been quite rapid. As a result, the market likely needs to at least catch its breath before advancing further. April has, however, been the best month of the year recently, even better than December. So perhaps the US advance has a little more fuel to burn before it pauses. After April, however, the summer doldrums typically set in as seen in Chart 18. With pressure on the Fed to again raise rates growing, these seasonal tendencies may have relevance in 2016. Moreover, history suggests even April could prove to be a perilous month this year. The second quarter of the fourth year of an election cylce has historically been the worst quarter of the entire four years (Chart 19). No doubt this reveals heightened investor uncertainty about the upcoming president and congress since at this point in the electoral process, the outcome is normally the most uncertain. For Stewardship Partners, remaining cautiously invested at this time seems wise given our already big lead on the indices, the recent strong recovery in share prices and because we believe we hold some individual stocks which could perform well even if the market does not.

Chart 19



Source: J. Lyons Fund Management

Chart 20



Source: FRED

These are short trem considerations. It is worth remembering the long term trend towards wealth creation in the US, in particular, is strong (Chart 20). Even when there are unexpected bumps in the road, the probability of a rewarding investing experience is high for long term investors. And it is worth noting household net worth is nearly $100 trillion, five times the US government's debt. We have much to be thankful for!

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, Lowe's, and one we avoid, Goldman Sachs. Lowe's is a holding in some of our Stewardship Partners portfolios while we actively avoid ownership in Goldman Sachs 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 – Lowe's – Exemplary Corporate Citizenship

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

Lowe's traces its roots to 1921 when Lucius Lowe started a small hardware store in rural North Carolina. Lowe, a devoted Baptist, operated the small store until 1940, when he passed away. At that time the store sold overalls, horse collars, wash tubs, produce and groceries. Lowe's son Jim then began to manage the company but eventually his brother-in-law and business partner took control of the company and greatly expanded it while changing its focus to hardware and business materials. By 1961, its operations had expanded significantly and the company went public. In 1979 it became listed on the New York Stock Exchange. Following decades of change and rapid expansion, the company is now the world's second largest home improvement chain in the world behind only Home Depot. In 2016, it is estimated the company will have revenues of $62 billion and profits of $3.5 billion. It is currently ranked as #50 on the Fortune 500 list of largest companies. Lowe's currently operates 1,857 retail stores across the United States, Canada and Mexico and employs around 270,000 full and part time employees. More than 16 million professional and retail customers walk through Lowe's doors every week with roughly 30% of those being professional customers working in a variety of trades. A typical Lowe's store carries an astonishing 36,000 different items and its staff is well known for their ability to help you find the one item you need among the 36,000 available. The company claims it has more than 500,000 items available online! Now headquartered in Mooresville, North Carolina, not far from Stewardship Partners' office, Lowe's has clearly achieved great success over a long period of time by consistently delivering a satisfying retail shopping experience and good value to their many customers. Furthermore, the company has built a reputation as an exemplary corporate citizen by steering clear of controversial social issues and providing charitable support to worthwhile organizations in its community. Home Depot, on the other hand has in the past waded deeply into the culture wars by providing financial support to any number of questionable organizations supporting homosexuality. After significant negative feedback, however, Home Depot's support for such organizations has waned in recent years.

Unlike most large companies, Lowe's has no formal mission and/or values statement. Yet it values are self-evident in the manner in which is conducts its business. At Lowe's the customer is treated with respect and the company's focus is on serving its customers better. In the 2015 annual report, Lowe's CEO stated "Our purpose is to help people love where they live." Further, it highlights the commitment to the company's customers in this way "we remain focused on our ability to meet customers on their terms, provide solutions for their projects, and be their trusted partner in home improvement. Moreover, we seek to differentiate ourselves through better customer experiences that make us the project authority. We do this by continuing to leverage our distinctive strengths in customer experience design to inspire customers and guide them through completion of their home improvement projects." But Lowe's traces its success to not only its customer focus but also its commitment to integrity as demonstrated in its comprehensive Code of Ethics. In the introduction to its Code of Ethics, Lowe's states, "For any business, as for any person, reputation is a priceless asset. At Lowe's, we have earned our reputation as a responsible company and a good corporate citizen over many years. We are extremely proud of our reputation, and we believe every employee, officer and director shares in that pride. Achieving our business goals is critical to our success, and the way we achieve them is equally important. Our stakeholders trust and expect us to deliver business results in an ethical, responsible manner. Ethical violations at any level in our organization can quickly destroy that trust and confidence and have significant reputational, financial, and other consequences." This narrative is backed up with a thorough and well thought out Code of Ethics which provides examples of common ethical issues employees may face and how they should react to them.

Lowe's would never have achieved its spectacular growth and success without treating its employees as well as it treats its customers. So it should come as no surprise that the company offers a wide range of benefits and support to both its full and part time employees. As the company says on its website, "The commitment and dedication of our employees have made Lowe's into the successful store that it is today. That's why we offer our part-time and full-time employees with a competitive benefits program. Included are a wide range of no-cost wellness benefits, the Family Assistance Program, Quit for Life smoking cessation, and the My Life Track wellness website." The competitive benefits include medical, dental, vision, life and disability insurance coverage with special medical plans for part time employees. Lowe's also offers an attractive array of time off options for its workers including paid vacation, paid holidays, family and medical leave options and sick pay. Flexible spending accounts are provided to help employees spend their money wisely on the items of greatest interest to them and in a tax-efficient manner. Moreover, the company seeks to help those employees who have to deal with child care or elder care by providing referral services for providers of such assistance. In Lowe's headquarters and some of its distribution facilities, the company has onsite nurses and pharmacies as well as seminars to help employees learn how to best balance life and work issues. But the list of employee benefits does not stop there. Lowe's workers also get free or discounted tax preparation services and, of course, employee discounts for their shopping at Lowe's. Flexible working hours, compressed work weeks, seasonal schedules, health and fitness fairs, and walking and fitness trails are also some of the benefits available to many Lowe's employees. In some cases, a corporate cafeteria is onsite, automated teller machines are available for banking needs and even laundry and dry cleaning services can found. Lowe's does not scrimp when it comes to training and education either. The company offers generous tuition reimbursements and provides a number of different ways for an employee to improve their skills. Scholarships are also provided as well as discounted online college courses. Internally, the company provides certified continuing professional education courses, skills and competence development courses and the Lowe's Leadership Institute for Management Development. Every single Lowe's employee can take advantage of these benefits.

Lowe's generosity extends well beyond its own employees. Indeed the company's legacy of generosity extends back to at least 1957 when it first set up a foundation to manage its charitable work. As the company's success has reached new heights each year, it has expanded its charitable activities accordingly. In 2015, the company donated $33 million to a variety of causes. The biggest charitable investment the company makes is in education with a focus on K-12 public education. Through Lowe's Toolbox for Education program it provides grants, educational scholarships and partners with schools to improve student's educational experiences and opportunities. Over 10,000 schools housing more than 6 million students have benefitted from Lowe's programs. Through this segment of their giving, they also support charities such as the Boys and Girls Clubs of America and SkillsUSA. Through its work in community improvement, Lowe's aligns itself with strategic partners in the building and repair segment, such as Habitat for Humanity, to provide building and repair services to communities in need. Lowe's also works to provide needed materials and monetary assistance to disaster relief organizations such as the Red Cross and the First Response Team of America. Moreover, Lowe's employees are very much involved in aiding their communities, logging over 43,000 hours of volunteer time in 2015. Lowe's will also pay for its workers to give a full day of work to approved non-profits. Every single Lowe's store has participated in what the company calls it Lowe's Heroes program, its employee led efforts to help their community. Clearly, Lowe's extensive charitable efforts are worthy of our respect.

Lowe'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 all it comes into contact with and one we can be proud to own!

The Bad – Goldman Sachs – Greed and a Lack of Integrity

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

Goldman Sachs is the preeminent investment bank on Wall Street and in the world. Its global scope and historic financial success are legendary. If you were to look closely at many leading public service officials involved in financial oversight of one kind or another, it is not unusual to find they once worked at Goldman Sachs. And if someone is looking to blame a specific organization for the rapidly rising problem of income inequality in the United States, Goldman Sachs is, not surprisingly, right at the top of the list. One far left pundit, Matt Taibbi, once characterized the company in this manner: "The world's most powerful investment bank is a great vampire squid wrapped around the face of humanity, relentlessly jamming its blood funnel into anything that smells like money." While Taibbi description is entertaining, even many conservatives agree he is only somewhat overstating the situation. No one institution can be blamed for the problem of income inequality but Goldman Sachs exists to serve the elite. It does its work with great competence but also has shown it is willing to stretch, if not break, the law when that seems to be in its and its well-connected clients' best interests. Recently, these tendencies were revealed when the company was implicated in a transaction in Malaysia which transferred millions into the prime minister's private Swiss bank account. Goldman was also implicated in transactions in Greece which contributed to the country's massive debt problems and recently agreed to pay the State of New York a $5 billion dollar fine for its misdeeds in the mortgage market. While we greatly admire Goldman Sach's competence in the financial industry, we are dismayed by its repeated failures to act with integrity on issues such as those noted above. Accordingly, we are unwilling to invest in its shares for our clients.

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

Our Ultimate Goal – Funding the Lord's Work

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

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

Featured Ministry – Christian Missionary Fellowship

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

Christian Ministry Fellowship was founded by students at Manhattan Christian College, located in Kansas, in 1949. The ministry's goal was, and is, to evangelize the non-Christian people of the world. These students envisioned a new model: a missionary-sending arrangement where the message would be thoroughly biblical, yet organized to allow for partnership, accountability, and efficiency. Within the first year of its existence the Fellowship had placed its first missionaries in India. Now, the organization has missionaries in 25 nations and via these families and the ministry's partners, they planted 200 churches in 2015. Much effort is made to plan effectively for new mission outreaches and the ministry also emphasizes vetting and training missionaries as they recognize work in difficult environments requires the right type of Christian who has learned how to have the greatest possible impact. Christian Missionary Fellowship also stresses a teamwork approach where its missionaries work with other Christian organizations and churches already located in the area they are seeking to evangelize as well as the indigenous church. Other key partners for the ministry are the individuals and churches in the US who provide finances and planning skills to help make the ministry's work possible.

Over the years, the work of Christian Missionary Fellowship has grown and moved into new dimensions of ministry. The initial strategy of the ministry was to be church catalysts and that work continues to this day. Currently, 170 ministries work in 20 countries seeking to establish new Christian communities that will impact their communities in both a practical and eternal perspective. Over 1,500 baptisms were performed in 2015 as a result of this segment's work. The ministry has increasingly incorporated medical assistance and Christian education into its efforts as such much needed help in some of the world's most troubled areas often opens up hearts to the gospel as the mercy of the Lord is demonstrated to those in such great need. Through the ministry's Globalscope program, Christian Missionary Fellowship is reaching out to college students with the gospel. The ministry sets up a house on college campuses that acts as a welcoming place for the students and a launch pad for various other evangelistic efforts. The ministry has also discovered that marketplace ministries are an effective way of reaching many for Christ in countries that normally do not allow direct Christian ministry work. Currently, the ministry has "business as mission" operations in four Asian countries. Additionally, there is a child sponsorship program available through Christian Missionary Fellowship.

Christian Missionary Fellowship's efforts to bring the message of gospel to the world have been well-orchestrated and effective. Moreover, it has managed the financial affairs of its ministry well, achieving a four star rating from MinistryWatch.com for financial efficiency. Accordingly, Christian Missionary Fellowship is worthy of your consideration for financial support.

The Christian Ministry Marketplace – Helping Donors Give Wisely

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

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

The Christian Ministry Marketplace
Resources for Christian Donors

WHY to give to Christian ministries?

Teaching on Stewardship:

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

HOW to give with a discerning mind?

Professional Advisors:

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

Donor Advisors:

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

WHERE to invest in kingdom ministries?

Ministry Research:

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

Ministry Mutual Funds:

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

Featured Ministry Marketplace Participant – Crown Financial Ministries

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

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 80 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 and Howard Dayton, 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 daily podcast, authors a regular blog and often publishes Christian perspective on important financial matters in various newspaper op-ed columns. 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. All Christians will find Crown's sound, biblically-based financial teaching to be a true blessing as they navigate life's journey.

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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