NATURAL INVESTMENT *news*

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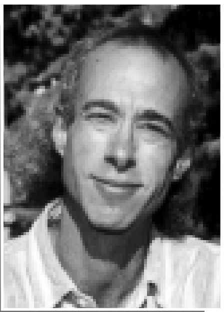

Hal Brill's VIEW FROM PAONIA

It's been another exciting year for Natural Investment Services (NIS). We just got back from the annual SRI conference (see Live Aloha for Michael's wrap-up), where we set aside time to do our own strategic planning. We have grown rapidly in 2005 and need to position NIS so that we can better serve more investors while helping create positive change. It's clear that the world needs people like us to step up and participate in creating a just and sustainable economy.

Over the summer we sent a survey to clients; many of you provided great feedback. (Thanks!) Most comments were very favorable – you like the values that we represent and trust us to treat you and your money with respect and integrity. Natural Investment News seems popular and about the right size. (Believe me its tough for us to keep it short!) Some of you are willing to receive account information via email to save paper. There were requests for more case studies and specific information about your investments, and gentle admonishments to avoid "self-promotion".

That comment led us to an interesting discussion. You – our clients and friends – are on the front-lines spreading the word, letting people know they can "invest with their values" without compromising their financial goals. You encounter the same objections that we do (people resist even thinking about their values when making financial decisions), so we want you to know about the growing body of evidence that proves the viability of SRI. How do we do that without blowing our own horn? It's a fine line, but I hope the message that comes through is something like: "we're all in this messy life together, and it is crucial that we pool our financial resources to invest in the world we want to see." We'll continue to share success stories, but we'll also work on our objectivity and let you know when SRI falls short of our aspirations.

Michael Kramer's LIVE ALOHA

More than 500 investment professionals gathered at the 16th annual SRI in the Rockies amidst stunning fall colors (and a few moose in the parking lot) in Snowbird, Utah. The record-setting attendance, including people from all over the world, reflects the increasing interest in values-based investing. The official title of this year's conference was "Money, Markets, and Sustainability: Bridging the Global Divide", but the key theme in sessions and the hallways this year was the "mainstreaming" of SRI. Research findings and performance data have persuaded many in the media and the traditional investment community to see that there is no compromise in financial return when layering values into the investment selection process.

It was stunning and somewhat vindicating to hear former CEO of Goldman Sachs Asset Management David Blood,

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Christopher Peck's HOLISTIC SOLUTIONS

Scenario Planning, or How not to fall for "the sky is falling!" Part II

As I'm sure you remember from the last newsletter, I was discussing the wonder solution to all our problems: scenario planning. As you no doubt recall, I brilliantly summarized the first half of my argument in this way: we cannot predict the future, trends don't help us much, knowing which one possible future will occur is impossible, horrible predicted scenarios grab all of our attention. Given all of that, we still need rational planning. We need some way to make decisions in a meaningful way that can guide our actions to best position ourselves for whatever future may come about. Scenario planning to the rescue! To resolve your curiosity, this article will finish what it started, and give you the real scoop on what scenario planning is, and why you should care. (If you missed

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the first half, email me and I can send you the complete article.)

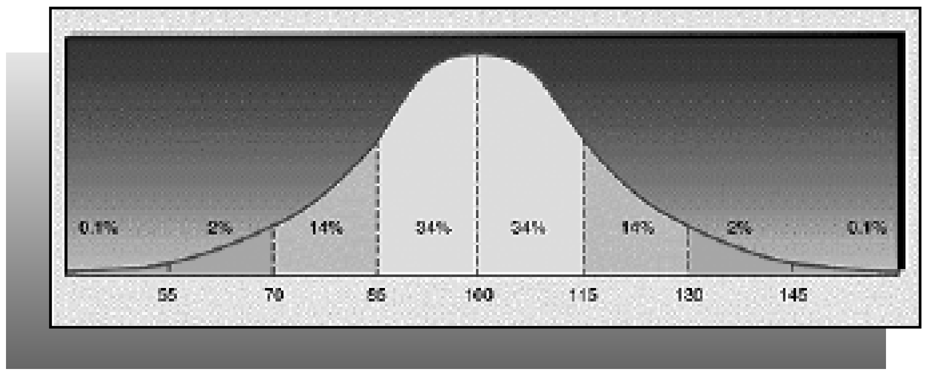
Scenarios are short, and creatively-titled, stories that incorporate the significant interactions of major trends, such as rising energy prices, growing fundamentalism, and continued dropping prices of computer processing. Playing with the various ways that significant trends can move and interact, a few major scenarios are created. I've developed six scenarios with energy and economic and social impacts as our main focus of attention.

Before I unveil my six, I want to throw one more curve into the mix, a common bell curve. We can use this tool to help us visually conceptualize how the various scenarios might relate to each other.

In this picture we have a mapped bell curve, with eight divisions. (This is actually a picture of IQ distribution in a population, with two more divisions than I'll use, but it'll work for our purposes.) We can think of each of the divisions as a possible future scenario, and the percentage in each division as a very rough guess about its future likelihood. The numbers used are to be understood as completely arbitrary, made up numbers, with no real predictive power. They can be better understood in a relative sense, as in, "this scenario is somewhat more likely than that one."

When talking about scenarios, I like to use movie and book examples to illustrate. At one end of the spectrum is the Mad Max future: post-apocalyptic, global scale economic and ecological collapse, roving bands of mutant beasts and mad men, oil is hoarded and killed for. At the other end of the spectrum is the Star Trek future: all energy problems are solved, everyone on Earth is conflict free, and we have cool gadgets like transporters, Holodecks, and communicators (well, I guess we've already got communicators). Are these scenarios possible? Certainly. Are they likely? Probably not. They're possible but not probable.

Moving slightly inward on the curve we have, on the darker side and staying with the movie theme, is 12 Monkeys (Brad Pitt was great in this) scenario. Not total collapse, but totalitarian governmental control, social isolation and restrictive structures. On the lighter side of things, we have a scenario from the book Ecotopia: the lovely sustainable reworking of all aspects of society, "soft energy" path, peace and harmony, and Strawberry Fields Forever. Clustering around the middle are scenarios closer to our current reality. On the rosier side is The Long Boom (based on a book of the same name by Peter Schwartz, scenario planner extraordinaire), which extends the past 20 years of growing global prosperity, technological progress, access to capital, but with real ecological and social challenges, into the next 20 years. On the other side is a similar scenario: The Long Decline. In this scenario ecological limits are pushed with consequences, energy becomes increasingly more expensive, standards of living and quality of life decline.



To summarize my mix of six, from dystopia to utopia: Mad Max, 12 Monkeys, The Long Decline, The Long Boom, Ecotopia, and Star Trek. This is not a super sophisticated series of scenarios; you could generate your own list pretty easily. Scenarios help define possibilities, considerations we need to take in our planning. But they also help us stay flexible about the future and guide our planning so that we don't bet the farm on one possible scenario. For example, many of us would think it foolish to wait around for the Star Trek solution: too much fantasy, probably not based on real human dynamics. At the same time we shouldn't bet our entire lives on the Mad Max future: there is human goodness and creativity, and considerable inertia in the system to keep it functioning. Good planning takes into account all of the possible scenarios, to make sure that you're not betting the farm on one possible outcome, but can survive and thrive given any possible future.

In the third half of this article, coming next newsletter, I'll discuss how you can convene a scenario planning group in your community, and some of the practical considerations for your financial life.

now Managing Partner of Al Gore's new sustainability-oriented firm Generation Investment Management LLP (he cracked us up when he said they thought about naming themselves Blood & Gore!) suggest to the SRI community that we all were right all along about integrating social and ecological issues into investments. He said the rest of the financial community is finally getting on board and predicted that SRI would continue to mainstream. For an investment professional of this stature to say this lends tremendous credibility to the SRI industry, especially if his firm influences industry peers.

There are other signs of the mainstreaming of SRI: the proliferation of SRI indices (such as the Dow Jones Sustainability Index and the FTSE4Good US Index), and Goldman Sachs' recent "Global Energy: Sustainable Investing in the Energy Sector" report, essentially a ringing endorsement for SRI that follows last year's creation of the Goldman Sachs Energy Environment and Social (GSEES) Index, the clean energy holdings of which outperform traditional energy companies.

A key conference insight worth noting was the emphasis on community investing, which as we know puts capital (and therefore assets) in the hands of local and lower-income people and communities. While the current standard is for SRI advisers to encourage their clients to put at least 1% of a portfolio's assets in community development financial institutions, this year many people wore buttons saying "1% is Not Enough" and were busily advocating for a much higher percentage allotment.

Gar Alperovitz, author of America Beyond Capitalism, further raised the bar with this question: "What if the goal was to become a central player in development of a new paradigm to shift the most central structure in this society -- who owns wealth?" With more than 11,000 companies employing 11 million people with significantly or increasing employee ownership, -- more than in the labor movement -- plus some 6,000 community and neighborhood corporations (12,000 if you count non-profit housing developers), not to mention land trusts, this presents what Gar called "a systemic possibility, rather than merely an investment vehicle." Gar made a critical point: "Current income and wealth trends aren't being challenged: the top 1% of people in the U.S. have more income than the bottom 100 million and control about half of all investment capital, while 5% owns 70 percent; it's a medieval distribution of wealth. With those assets go power!" This certainly underscores the potential power of community investing and speaks to the value of including higher percentages in portfolios.

There are new issues the industry is just beginning to face, such as the exploitive labor practices in the cocoa industry, pesticides in cut flowers, and slave labor in diamonds. Julie Fox Gorte of the Calvert Group called this the "Valentine's Day Massacre", given the irony of buying and using these products to show our love.

And finally, there were important presentations of new opportunities in the areas of "green real estate" and renewable energy. A panel on natural building focused on the cost-savings of retrofitting urban buildings in troubled inner cities. Examples cited included a Harlem condo which supplies 25% of its electricity by wind energy, saving 838,654 lbs of CO_2 and equal to planting 57,051 trees each year or taking 60 cars off the road! Another project, the Brewery Blocks in Portland Oregon, achieved a reduction of more than 25 percent storm water runoff by building an "eco-roof". These are examples of the types of projects supported by Forward Uniplan Real Estate Fund (FFREX), which holds development companies that have a commitment to urban and brownfield redevelopment. The Wilderhill Clean Energy Index (ECO) is a new index of renewable energy companies that can be invested in as an "exchange-traded fund" (basically a fund that trades like a stock). This is helping focus investors on primarily small and mid-cap companies which are leading the transition to energy conservation and sustainability.

SRI in the Rockies was an important and insightful event which demonstrated the power of the industry and explored the issues we will collaboratively focus on in the immediate future.

I do see a need for clear and perhaps universal standards within the SRI industry. Many investors do not understand the nuances among all of the funds regarding their screening practices, and the general lack of consistency makes it difficult to gauge the overall impact of the movement. This is an area where NIS can make a contribu-

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NIS Endorses Katrina Guidelines

It's always good to be with our SRI community during hard times. On 9-11 we were together in Tucson when the towers struck. This year Katrina was fresh on our minds, and the conference provided an opportunity to craft policy. Several members of the Social Investment Forum have been active in the Gulf Coast rebuilding effort, with a number of community investing institutions taking the lead in reaching out to areas affected by hurricanes Katrina and Rita.

The Katrina Business Guidelines oppose Bush Administration efforts to weaken workplace and environmental standards. They call for rebuilding using standards of fairness, justice and opportunity, and encourage investing in community enterprises and using sustainable design. More information is available at www.socialinvest.org. Please contact your NIS advisor if you wish to invest in reconstruction or learn about progressive charitable initiatives.

What's Up on Wall Street?

Destruction. A word that describes a relentless year. Tsunami… war… hurricane… earthquake… all weigh heavy on our hearts. And yet for most of us, life goes on and we go through our days the same as before, only perhaps a little more aware of our own smallness.

Under that backdrop, it's remarkable that the financial markets have managed to keep treading water. The many shocks to the system have so far been absorbed with scarcely a ripple of volatility. The Monday after Katrina hit, what do you think the stock market did? I was kind of afraid to look, but with investing you can always count on the unexpected. The Dow turned in one of its biggest single-day gains of the year! Investors had already decided that the US economy was resilient enough to recover from the devastation, and that there would be good opportunities in the rebuilding of the region.

For every company that falls, another seems to rise up to find opportunities. This year it has been energy companies that have dominated the win-column. And not just oil companies – renewable energy has the wind at its back. Solar energy companies are selling as much as they can produce. The only thing holding solar back now is a shortage of the high-grade silicon used to make photovoltaic (PV) cells. One company, Evergreen Solar (ESLR) makes PV cells using less silicon, which may be one reason the stock is up 400% this year.

On a whole the stock market continued in the narrow range it's been stuck in (between 9,500 and 11,000 on the Dow) since late-2003. That's two years of – to use river rafting terms – being stuck in an eddy. We're in a holding pattern, waiting to discern whether the next major move will be up or down. The incessant interest-rate increases by the Federal Reserve are keeping the brakes on – every rally seems to fizzle. I'm hopeful that the market is like a coiled snake getting ready to leap, but there's no telling how long we might stay in this eddy, and there's always the risk that some shock to the system will take a bigger toll and send the market down. The "bird flu" is one potential situation

BENCHMARKS: Total Returns as of 9.30.05

	3rd Quarter	1 Year	3 Year
S&P 500 Index	**3.6%**	**12.3%**	**16.7%**
Domini Social Index	**3.4%**	**9.7%**	**15.8%**
Russell 2000 - Small Cap	**4.7%**	**17.9%**	**24.1%**
Lehman Aggregate Bond	**-0.7%**	**2.8%**	**4.0%**
MSCI (International)	**10.4%**	**25.8%**	**24.6%**

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