NATURAL INVESTMENT *news*

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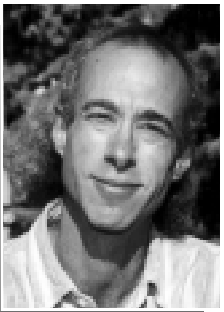

Hal Brill's VIEW FROM PAONIA

As this newsletter heads to the printer, the NIS team is on its way to the 17th annual *SRI in the Rockies* conference. As one of a handful of diehards that has attended every one of these since 1989, it's always fun to experience the amazing growth of natural investing through the years. This year we'll have plenty of cause to celebrate (the conference isn't all work!). One of our heroes, Mohammed Yunus of the Grameen Bank in Bangladesh, has been honored with the Nobel Peace Prize. Yunus is considered the father of microenterprise lending – small loans to poor entrepreneurs. His vision is clear: a world without poverty.

30 years ago Yunus visited an impoverished village in Bangladesh that was full of skilled artisans. He discovered the combined debt of the villagers was a mere $27! So he reached into his pocket and paid off the debt of 40 extremely poor villagers. What he could not know then is that he was embarking on a lifetime of service that would transform not only Bangladesh but the entire world. Today, the Grameen Bank has made over 6 million loans to poor people that average about $100 each. To the chagrin of bankers who refuse to lend to the poor, the bank has a 99% repayment rate and has been profitable in all but 3 years. More than half of their borrowers have moved out of poverty.

Microfinance is one of the biggest success stories of the developing world. There are now thousands of microlending institutions operating around the world, including the U.S. Indeed, as Michael Kramer discusses in his "Live Aloha" column, Hurricane Katrina revealed that parts of our nation are very much like the developing world. It's fascinating to see that tools pioneered in far-off Bangladesh are helping people rebuild their lives in the Gulf region.

Michael Kramer's

LIVE ALOHA

COMMUNITY INVESTING AFTER KATRINA

In the 15 months since hurricanes devastated the Gulf Coast Region, natural investors have participated in revitalizing communities through investing in affordable housing, minority-owned businesses, and redeveloping urban and rural areas torn apart by the storms.

Community development financial institutions (CDFIs) have channeled capital to low-income and displaced populations traditionally underserved by conventional banks, providing credit to those who have insufficient income or lack credit or collateral. This assistance has been and continues to be critical for those hardest hit by Katrina. Because the CDFIs were already in these communities, they had the

continued on page 4

Christopher Peck's

HOLISTIC SOLUTIONS

"BECOME WEALTHY BY CONTROLLING YOUR THOUGHT HICCUPS!"

What if I were to tell you that I know the secret to financial success – to fabulous wealth beyond your wildest dreams? What if I were to tell you that I know how to make you wealthy, healthy, even wise? And what if I were to tell you that you could access all of this powerful information in three simple payments, billed conveniently to your credit card, to be enjoyed in the comfort of your own home? Would you tell me that you don't buy anything from infomercials? Or would you immediately call my 800 number? Dial now, operators are standing by!

continued on page 2

Your responses to the above questions are partly determined by your "money personality," a catch phrase to group together some of the defining and different characteristics that we see in people regarding how they work with money. I talk with many people every week about money, and I've come to see some similarities around money personalities. I worked with a woman several years ago who was archetypal of one money personality, the **free spirit**. This type doesn't want to be tied down with money, won't record any expenses, and usually sees money as "energy," or "life spirit." These types usually spend too much, live beyond their means, and make poor investment decisions, generally in the form of too much risk. But they sure are having a good time! Well, a good time until they run out of money and experience the loss of freedom associated with being broke. I've also worked with a fair number of folks at the other end of the scale, the archetype of the **penny pincher** (as investment advisors we see more of this type – free spirits don't have much to invest!). This person is so worried about accounting for every penny, and making sure that all of their money doesn't run out, that they can really squeeze the life out of, well, life. This conservative side of the spectrum leads to guilt, a sense of heaviness around money, and poor investment decisions from not taking enough risk, and life sure isn't fun!

Money personality typology is all well and good, but I don't trust it. Simplifying all of humanity into twelve or nine types, or worse, two in my classification, has always struck me as leaving out too much of the gritty detail. If I approach someone with an attitude of "hey penny pincher, loosen up!" that doesn't build rapport or move towards making positive changes. Certainly there are ways that we look at the world, similar patterns of thought that we engage in, that color everything that we do, but there are more specific in-the-moment bits of reactivity that we have, at a simpler and more subtle level. So I prefer looking at something a little deeper, what we might call mental models or mental frameworks.

> *Maybe we could call it nothing more than a thought, or a thought-pattern, or a money-thought-pattern, or a reactive-money-thought-pattern.*

I've been searching for a word or simple phrase that conveys this idea of mental models or frameworks. These unexamined patterns of reactivity around money tend to steer us in a certain direction – often the wrong direction. If we could bring them to consciousness we could slowly make some changes about them. Maybe we could call it nothing more than a thought, or a thought-pattern, or a money-thought-pattern, or a reactive-money-thought-pattern. How about "thought blip," or something like that? No great catch phrase there. The most compelling I've come up with so far is thought hiccup. Like a real hiccup, it just emerges without premeditation, an autonomic process that initially we don't have much control over. We all know how powerful some hiccups can be, especially when they arise at the wrong time. And hiccups seem to be connected to too much consumption, dual meaning intended.

So, a thought hiccup is the thought or mini-story that pops up spontaneously at certain times. For our free spirit, she's in the department store, and this little hiccup keeps burping out: "I've been deprived for so long, I really need to treat myself." Burp, swipe the credit card and bingo, we're off to the next event. Enough burps like that leads to too much consumption until the debt starts to consume you.

Next newsletter I'll talk about how to control this habit, what you can do to hiccup less, and move towards integrating your money personalities: you could become the easy-going penny pincher. Or maybe the grounded free spirit. And, as I mentioned, operators are standing by, email or call with questions or comments!

What's Up on Wall Street? – Third Quarter, 2006

The stock market in the US had a good 3rd quarter. In fact the overall market, as measured by the S&P 500, finished the quarter up better than 5.5%. The Domini Social 400 index did even better, posting a 6.4% gain for the quarter. Telecom and health care companies were the best performers over the three months, two industries that are well represented in many socially responsible portfolios and contributing factors in the Domini Index's strong performance. Oil stocks, which have been red hot much of the year, actually posted losses for the quarter.

This agreeable performance was largely due to receding fears about inflation, the Federal Reserve Board's decision to maintain interest rates at current levels rather than raising, moderate economic growth and declining oil prices. The market posted its third best quarter since 1997, and investors seem to believe the economy is poised for a mild slowdown, sometimes called a "soft-landing," which is far better than a full-on recession.

The NIS model portfolios posted competitive results in part due to our unique asset allocation strategy which includes investing a portion of our client's assets into an asset classification we call "Hybrid Income & Growth." These are distinct investments that are neither typical income nor growth securities, but a strategic blend of the two.

Typical growth-objective investments, such as stocks, are selected with an investment goal of creating appreciation in value over time, with little in the way of current income to supplement that appreciation. However, certain stock investments are designed to participate in the market's long-term growth and take advantage of the steady income produced by dividend-paying stocks along the way. This strategy is known as "equity-income" investing.

For many of our clients, we recommend the Parnassus Equity Income mutual fund to fill this role. This fund has earned the five-heart rating from NIS (our highest rating) for the broad

We believe that our investors benefit from this forward-thinking strategy by helping create broad sources of our investment returns...

and rigorous social and environmental screening conducted by the fund's managers. This strategy has served our investors well so far this year. The Parnassus Equity Income Fund has posted a 10.3% year-to-date return through Sept. 30. This is well ahead of the average for its category at 6.8% and even ahead of the market, as measured by the S&P 500, at 8.5%.

As for the income component of this distinctive Hybrid category, we include a recommendation in the area of high yield bonds. "High Yield" bonds are those that carry a lower credit rating than investment grade bonds, but also offer better yields. In our case, we recommend the Pax High Yield fund which overweighs investments in higher-quality companies that generate strong cash flow. The fund is currently yielding 7.2% (dividends paid to the fund's investors annually). This strategy has helped the fund show a year-to-date return of 6.2% compared to its category at just 5.8%, and compared to the overall bond market at 3.1%, as measured by the Lehman Bros. Aggregate Bond Index.

The Pax fund has earned a four-heart NIS Social Rating, and has owned bonds issued by innovative companies like an enviro-coal company in Indonesia, two South African companies - a diversified food company and a cellular phone company, a Greek yogurt company, a European based cellular company getting most of its revenues from Central and South America, and with a growing presence in Africa. These holdings result in the fund having far less exposure to the US economy than most high yield funds.

Finally, our Hybrid category includes recommended investments in the stocks of non-nuclear utility companies and in real estate investment trusts, both of which can enjoy appreciation in value as well as paying handsome dividends. These investments round out the asset allocation category we call Hybrid Income & Growth. We believe that our investors benefit from this forward-thinking strategy by helping create broad sources of our investment returns, and thereby produce more reliable investment returns.

BENCHMARKS: Total Returns as of 9.30.06

	3rd Quarter	1 Year	3 Year
S&P 500 Index	**5.6%**	**10.8%**	**12.3%**
Domini Social Index	**6.4%**	**9.5%**	**10.5%**
Russell 2000 - Small Cap	**0.4%**	**9.9%**	**15.5%**
Lehman Aggregate Bond	**3.8%**	**3.7%**	**3.4%**
MSCI (International)	**3.9%**	**19.2%**	**22.3%**

infrastructure and relationships in place to offer immediate and prolonged help throughout the recovery effort.

Natural Investment Services (NIS) investors have to date invested over $2.2 million in this community investing initiative through two primary vehicles: CRA Qualified Investment Fund and Calvert Community Investment Notes.

The CRAFund (ticker CRAIX), of which NIS investors currently own $1.7 million, is the ninth largest SRI mutual fund with nearly $800 million in assets, $15 million of which have been bonds supporting reconstruction during the post-Katrina Gulf Coast recovery. In September 2005, CRAFund became the first mutual fund in the U.S. to dedicate fund assets towards post-Hurricane Katrina reconstruction in New Orleans and other damaged portions of Louisiana, Alabama, Mississippi, and also in South Florida and parts of Texas where the largest numbers of evacuees relocated. Since then, CRAFund has invested $15 million in bonds supporting reconstruction in disaster areas.

The Calvert Foundation has directed a total of $1.6 million in affordable loan capital to five groups that are working in the Gulf Coast Region. These loans are based, in part, on investment funds raised since 2005 through the "Gulf Coast Recovery Initiative," a Community Investment Note program. NIS investors currently hold $525,000 of these notes.

Calvert Foundation has disbursed $1 million to the Community Recovery Fund, partnering with Rural Local Initiatives Support Corporation (Washington, DC) and Enterprise Community Partners (Columbia, MD). They provide permanent affordable housing to working poor and extremely low-income people primarily in Louisiana, Mississippi and Alabama. Enterprise Housing provided emergency housing and support services to 1,500 Hurricane Katrina evacuees and advised the Louisiana Recovery Authority on developing a comprehensive $8 billion housing rebuilding plan. An affiliate of the Local Initiatives Support Corporation has committed a total of $50 million for first mortgage loan capital to support affordable housing development in Louisiana and Mississippi, which to-date has repaired 400 homes and built another 550 homes.

Other Calvert Foundation capital placements include: Affordable Housing Resources of Nashville, TN, which worked with federal subcontractors to settle more than 2,000 evacuees in over 500 trailer homes in Baker, Louisiana, and ASI Credit Union of Harahan, LA and Community Development Capital of New Orleans, LA.

Every dollar invested in a Calvert Community Investment Note is placed in a diversified loan pool with the objective of earning both a financial and a social return. The full value of the capital is invested and then reinvested several times in low-income communities – allowing individuals to "magnify" the impact of their assets in a way that would be impossible to achieve through a simple charitable donation. Community Investment Notes fund a dynamic portfolio of loans to nearly 200 outstanding non-profit organizations in all 50 states, and over 100 countries around the world, that target the following categories: affordable housing (building and refurbishing homes for lower income families and individuals) microcredit (loans of as little as $50 to help the poor turn their lives around); small business loans (helping people start or strengthen job-creating and community-building businesses); community facilities (financing for local nonprofits and cooperatives, supporting healthcare, education, childcare and many other core needs in troubled communities); and social innovation capital (cutting-edge programs such as support for fair-trade farmers, innovations that protect the environment, and the promotion of independent media).

CRAFund became the first mutual fund in the U.S. to dedicate fund assets towards post-Hurricane Katrina reconstruction in New Orleans...

Other important Gulf Coast investment programs have included:

- Access Capital Strategies, in conjunction with Liberty Bank and Trust, the largest African-American bank in the region, has assisted with $40 million in home mortgage and small business loans, particularly in the Ninth Ward and New Orleans.
- Enterprise Corporation of the Delta/HOPE Community Credit Union is Jackson, Mississippi's primary provider of business and nonprofit recovery loans and consumer recovery products and services. These low-interest loans, technical assistance, and flexible financing terms have been vital to home and business revitalization.
- Jewish Funds for Justice/Shefa Fund's Hurricane Katrina Fund made strategic loans to immigrants, people of color, and low-income people affected by the storm.
- NCB Development Corporation
- Nonprofit Finance Fund
- Rudolf Steiner Foundation
- Southern Bancorp

For more information about these and other community development efforts in the Gulf Coast region, visit www.communityinvest.org.

SRI Mutual Fund Profile: Forward Uniplan Real Estate Investment Fund.

This quarter we are taking a look at a special type of mutual fund we recommend for many of our clients called the Forward Funds Uniplan Real Estate Investment Fund. While most of the mutual funds we recommend invest the fund's assets in stocks or bonds, the Forward Fund invests in actual real estate, or more commonly in "Real Estate Investment Trusts" or REITs. Mutual funds such as this one are often known as REIT Funds.

A REIT is a company that usually owns and operates income-producing real estate such as apartments, shopping centers, offices and warehouses. Most REITs will trade on a stock exchange, just like typical companies. A REIT mutual fund is simply an investment fund directing its investor dollars into a diversified portfolio of REITs. REITs typically pay higher dividend rates than the stock market as a whole. For this reason this type of investment fits into the "Hybrid Income & Growth" portion of our portfolios. (Please see this quarter's "What's Up On Wall Street?" article.)

Also, REITs have a relatively low "correlation" to the stock market. This means that when stocks are sagging, REITs may be performing well. This adds effective diversification to a portfolio.

Forward Funds Uniplan Real Estate Investment Fund

The manager of the Forward REIT fund is Rick Imperiale who has been involved in the investment industry since 1984 when he founded what is now the advisor firm for the Forward REIT fund, Uniplan, Inc. Rick is very well connected throughout the REIT community. Rick "wrote the book on REITs" with his book "Real Estate Investment Trusts – New Strategies for Portfolio Management."

The Fund balances its investments across the different sectors of the market for appropriate diversification which helps to lower its risk. They assess the management of each prospective real estate investment across 60 major metropolitan areas, and the supply and demand factors of each to determine the attractiveness of the local market.

Two of the things that we really like about this fund are, first, the Forward fund is highly unique because it takes into account the environmental impact of projects it considers. The belief is that it's better to build sensibly in sensible locations. For example, it would be preferable to build a warehouse on land that isn't suitable for farming, or land that isn't in a location where a park, for example, would better serve the community.

The other thing that attracts us to this investment category and this fund is performance. This fund returned 7.4% during the 3rd quarter and an impressive 19.9% year-to-date through Sept. 30. We feel that this investment makes sense for investment and social reasons.

Performance data quoted represents past performance and is no guarantee of future results. Investing involves risk including possible loss of principal.

NATURAL INVESTMENT SERVICES, INC.

Blue Fund Hopes Blue Voters Will Invest Blue

By Hal Brill

By the time you read this we should (IF the election machines work, etc.) know whether the Democrats have clawed back into power in Congress. But regardless of the outcome, left-leaning voters now have an opportunity to vote with their dollars for companies that support their political views. The brand new Blue Fund (www.bluefund.org) will only invest in companies that earmark a majority of their political donations to Democrats.

The founders – which include a former chairman of the Democratic National Committee as well as a New York investment banker – are eager to bridge investors social *and* political values. Moreover, the Blue Fund has issued a white paper that studies the performance of companies that donate to Democrats. The results? The Blue Large Cap Index outperformed the S&P 500 by 13.1% over the last 5 years. This index consists of 76 large-cap companies that donated mostly to Democrats. Meanwhile, the 380 "red" companies in the S&P that funds Republicans underperformed the Blue Index by 15.6%.

Of course investors should apply skepticism to any investment concept that sounds too good to be true. In this case, 2 of the largest holdings in the Blue Index are Apple Computer and Google. These companies have shown strong performance and give a big boost to the performance. But there were also challenges. No major energy companies are in the Index.

Natural investors have seen many studies that correlate progressive values to enhanced stock performance. But this is the first time that we've seen a study analyzing the effect of political views to performance. In doing the study, the authors discovered that "blue" companies were twice as likely to pass a set of comprehensive social screens as their "red" counterparts.

After presenting the financial results, the Blue Fund white paper goes on to discuss why the "blue factor" may be leading them to better performance:

We believe that progressive leaders at all levels of government – from the White House to the city council – are more likely to take a long-term view on important issues, including the environment, foreign policy, and the economy. The strong performance of the American economy under Democratic presidents certainly supports this belief. And just as progressive leaders in the White House are often better stewards of the economy, we believe that progressive leaders in the boardroom take a longer-term, more holistic view on important business questions. It is not surprising that corporate leadership of this kind, exemplified by many blue companies, helps generate solid, long-term results that tend to outperform the market.

Here at NIS, we'll be watching this new fund (actually 2 new Blue funds, a large-cap and small-cap fund) to see how they do in the real world. They are coming to SRI in the Rockies so we'll have a chance to talk to them about their strategies.

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