NATURAL INVESTMENT *news*

Spring 2006 Hal Brill Christopher Peck Michael Kramer Jack Brill Scott Secrest www.naturalinvesting.com

Hal Brill's View From Paonia

This sweet little Quecha child lives in a remote valley high in the Andes Mountains of Peru. My encounter with her a few weeks ago was one of the most heart-opening experiences of my life. It was on the first evening of a trek that Allison and I took, crossing a mountain pass higher than the peaks of Colorado. I climbed up a side valley and spotted some llamas grazing. Then I saw a small stone shack with a grass thatched roof. A small red dot emerged and came towards me. Suddenly there she was, gazing at me in wonder, no fear! I was transported into another time, when people lived in harmony with the earth and each other. She of course probably thought I was from Mars, wearing my Gore-tex and towering 6 feet high.

She graces the cover of this issue as a reminder of "why we do what we do". What sort of future awaits her? A glacier feeds the stream where her family's animals graze; it has greatly receded due to global warming and will almost certainly disappear. If this stream dries up her family may be forced to migrate to a city. Will there be any jobs?

Natural investors use a variety of strategies to address global warming, foster renewable energy, support fair trade and finance microenterprise loan funds around the world. There's nothing like getting out into the so-called "developing world" to see how important this work is.

Michael Kramer's

Live Aloha

Networks of Socially Responsible Businesses

Every purchase we make is an investment in our economy and a reflection of our values, so our daily purchasing habits are an important complement to natural investing. The primary national resource for green purchasing has been Co-op America (www.coopamerica.org). They have published its National Green Pages for 24 years and produce numerous other resources and events such as the Green Festival. This invaluable information keeps us current on consumer trends and opportunities. (Natural Investment Services and our advisors have been in the National Green Pages for years.) Other national green consumer resources include www.ecomall.com, www.realgoods.com, www.greenforgood.com, www.alonovo.com, and www.gaiam.com.

continued on page 4

Christopher Peck's

Holistic Solutions

Going Longest Term: Or, How to Kick the Urgency Addiction

Do you ever do this? Do you ever find yourself talking on the phone, reading email, downloading software, while you have a load of laundry going, all while you're writing an article on being-in-the-moment to save the earth, that was due two days ago? I know I have a problem, I'm just too busy to get myself to the Urgency Addicts Anonymous meetings. I think we all suffer this obsession with urgent multi-tasking; we have to save the Earth, and fast!

There are obvious culprits for the urgency culture: life at the speed of email, so many opportunities, the SuperPerson syndrome, etc. Some of our urgency comes

continued on page 2

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from an awareness of world problems: impending oil crisis, incompetent administration, environmental collapse, you know the list. But my proposition is that a big chunk of our urgency comes from not being able to see long term. If you wanted to be contrary you might counter that these are long-term problems we have been aware of for a long time, and it's been stressing us out the whole time. But I'd like to suggest that our urgency around these problems is not because we have too much long term thinking, but because we have too little, and our long term isn't long term enough.

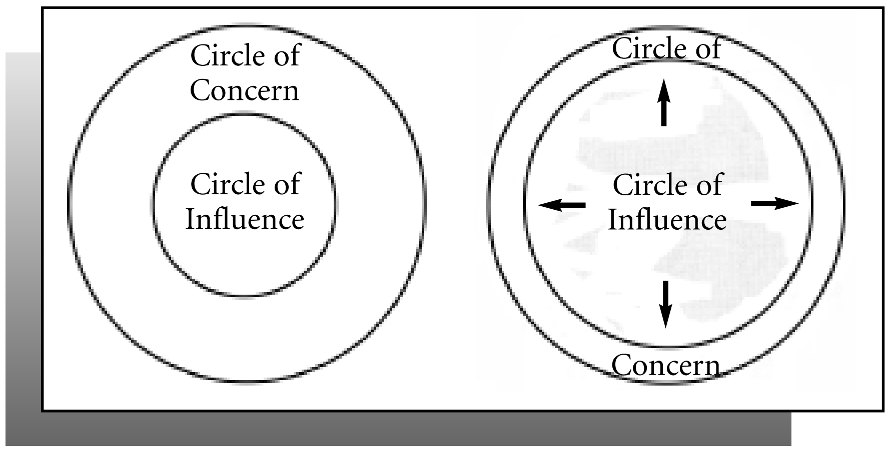
Reading Jared Diamond's *Collapse* (which I heartily recommend) doesn't ease the sense of urgency. Taking a long term view of history he cautions, "take environmental problems seriously. … If 6,000 Polynesians with stone tools were able to destroy Mangareva Island, consider what six billion people with metal tools and bulldozers are doing today." The scariest piece of Diamond's work is how societies were running at full tilt at the moment of collapse; the folks at Easter Island were building massive statues (with all of the demands for feeding workers, using trees for support, etc) right up to cutting down the last tree, desiccating the island and severely compromising their ability to grow food. They left their tools in the quarry; you can feel their urgency. Intent on getting the statues built, they didn't even look up, "oh, last tree cut down? We can use a shrub, can't we?" (political allusion fully intended)

I'm juggling a few ideas here: the problem of our urgency culture and the multitasking response, the crush of long term problems becoming present day crises, the desire to be more satisfied living today with an eye towards helping tomorrow. I'm also suggesting that urgency is part of what's creating our long term problems, even if what we're feeling urgent about is our long term problems.

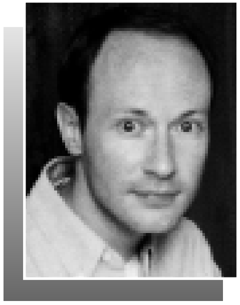
In question form, how can we move from being focused on the short term crisis, or the current manifestations of the long term crises, to seeing the long term actions that need to be done to make a real difference in building a better world, with cheerful spirits? How can we act as effectively as possible, without the urgency and burnout that comes from multitasking and crisis thinking?

I'd like to suggest that balance is possible, we can balance the need to act now with calm getting-it-doneness. I'd like to be in the flow and working hard, but without having to be too freaked out about it all. In the next couple of articles I'd like to suggest some strategies that might help, at least they seem to be helping me. And don't worry, I'll make a big and coherent linkage to investments, portfolio management, investing with our values (you can probably already guess what I might say ….).

So I don't leave you hanging, I'll suggest a tool I use for balancing urgency with long term view and getting things done. (In the next couple articles I'll offer more tools that help further this balance.) It's a tool I learned many years ago from Stephen Covey's books and it's called The Circles of Concern and Influence. Covey points out that we all have a large Circle of Concern, we're concerned about lots of things: the tire pressure in my car, budget deficits, the "war on terror," my allergies, Peak Oil, if the aliens are behind the con trails, etc. We're concerned, but we might not be able to influence these concerns. The circle within is the Circle of Influence. These are the things we're concerned with, but that we can also influence. I can influence my tire pressure, and perhaps my allergies, but I'm not sure about the aliens. Covey suggests that if we focus our attention more and more into our Circle of Influence, we'll get more done, we'll be less freaked out, and we'll slowly expand that circle further into our Circle of Concern, as we become more effective. Play around with these circles, see if you can direct more of your attention towards the things you can influence, and see if this starts to make a difference in your urgency addiction. Less preach and more tools coming next article. Email me if you you're urgent to hear these ideas sooner.



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



By Scott Secrest, NIS Director of Investment Research

Wall Street pundits are feverishly sifting through data from the 1st quarter of 2006. The most commonly used measure of overall economic activity is the "gross domestic product" (GDP). It measures the total value of all goods and services produced in the US in a given year. The GDP has historically grown between 2.5% and 3% in the United States. In 2005, GDP growth was 3.5%. It is forecast to slow to around 2.8% in 2006.

Stock market performance is often used as an indicator of investor confidence. The S&P 500 – a broad measure of large-company stock performance – gained a respectable 4.2% during the first quarter. The socially responsible Domini 400 Social Index posted a return of 3.5% for the quarter. Investors (who rely on GDP figures) still have confidence in our economic future.

According to Redefining Progress, a sustainability research organization in Oakland, CA, the GDP was never intended for its current role. It is merely a gross tally of products and services bought and sold, with no distinctions between transactions that add to well-being, and those that diminish it. Instead of separating costs from benefits, and productive activities from destructive ones, the GDP assumes that all economic activity adds to our well-being.

In many developing countries, the costs of environmental degradation have been estimated at up to 8% of GDP annually. Natural resource degradation - depleted soils, disappearing forests, collapsing fisheries - threaten human health. An estimated 6 million people die annually – and many more get sick – from water-related diseases, indoor air pollution, urban air pollution, and exposure to toxic chemicals. The World Bank reports: "Environmental degradation reaches across borders, affecting the quality of the regional and global commons and further increases the vulnerability of people to natural disasters. Its cumulative impact threatens the basis for growth and livelihood today and in the future."

Environmental clean-up expenses, expected to run into the billions in the coming decades, add to the GDP. Ironically, companies that created the pollution in the first place record their profits as part of the GDP. So according to the GDP, environmental pollution benefits the economy not once, but twice!

What might work better? Some progressive economists have developed the Genuine Progress Indicator, or "GPI." The GPI is a better measure of the economic well-being of the nation. It broadens the conventional framework to include the economic contributions of the family and community realms, and of the natural habitat, along with conventionally measured economic production.

The GPI takes into account more than twenty aspects of our economic lives that the GDP ignores. It includes estimates of the economic contribution of numerous social and environmental factors which the GDP dismisses altogether. It also differentiates between economic transactions that add to well-being and those which diminish it. The GPI then integrates these factors into a measure so that the benefits of economic activity can be weighed against the costs.

Benchmarks: Total Returns as of 3.31.06

	1st Quarter	1 Year	3 Year
S&P 500 Index	**4.3%**	**11.7%**	**17.2%**
Domini Social Index	**3.9%**	**11.8%**	**16.1%**
Russell 2000 - Small Cap	**13.9%**	**25.8%**	**29.5%**
Lehman Aggregate Bond	**-0.6%**	**2.3%**	**2.9%**
MSCI (International)	**9.4%**	**24.4%**	**31.1%**

On top of this, GDP ignores non-monetary exchange, regardless of its importance to society. Important work performed in the household and volunteer sectors go entirely ignored. Contributions of mother earth in providing the natural systems that sustain us go unreckoned. As a result, GDP hides the breakdown of the social structure and habitat.

Socially responsible investors can clearly see that environmental neglect is harmful to people and to prosperity. Clearly, GDP does not capture our whole economic picture accurately.

Socially responsible investors are leading the way in educating people about how environmental neglect harms people and the economy. New and enhanced economic statistics like the GPI can help business and political leaders make better policy decisions.

But when you prefer to support the local economy or don't want to shop on-line, how can you find values-oriented businesses? One way is through a local green business program. Like Co-op America, these programs have ethical criteria; businesses must demonstrate their level of commitment to social and environmental responsibility. Examples of these are found throughout California: a Bay Area program, www.greenbiz.ca.gov sponsored by county governments; a San Francisco city program, www.sfenvironment.com/greenbiz/; and a San Diego County program, www.sdgreenbiz.org. Outside of California, Orlando, Ashland, Burlington, Austin, and Salt Lake City also have programs.

The Kuleana Green Business Program of West Hawai`i's 700-member Kona-Kohala Chamber of Commerce is a program I recently developed for local businesses along the 150 miles of coastline on Hawai`i's leeward side. The first of its kind in the state, the program emphasizes business practices that improve the quality of life for customers, employees, communities, and the environment in socially and environmentally responsible ways.

The Hawaiian word kuleana translates as an acceptance of responsibility to do what is pono, or righteous. The Kuleana Program's slogan, "Integrity and Stewardship in Action", reflects an intention to demonstrate ethical business behavior and citizenship. While a green business commonly refers to environmental protection, any business, regardless of its industry, can become greener if it commits to operating in ways that solve, rather than cause, social and environmental problems. This means that the way in which a company governs itself and relates to its community is as important as its core mission. Green businesses make an effort to use the power of money to support social and economic justice, to purchase healthy products, and to build integrated communities. If it's obvious to the consumer, employees, and community that these ethics are operating within a business, it typically earns the green designation.

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The Kuleana Program is adapted from Co-op America's membership criteria and applies to all aspects of a business, such as its purchasing, producing, decision-making, employing, distributing, investing, and giving patterns. In order to qualify for the program, businesses must explain how they are socially responsible in five distinct categories:

(1) Product/Service Quality: the functions of a business and how it impacts consumers, the community, society and the planet. This category addresses social and environmental qualities of the products or services themselves along with quality assurance methods.

(2) Community Relations and Benefits: how businesses help the community to flourish socially, culturally, economically, and ecologically.

(3) Customer Relations: the strategies businesses employ to attain customer loyalty, including incentives and initiatives undertaken to provide outstanding service to customers.

(4) Employee Relations: the approaches businesses take to treat employees well through policies, financial packages, and other benefits.

(5) Environmental Stewardship: the practices businesses utilize in their operations to minimize their harmful ecological impact, as well as approaches to conserve and regenerate resources.

The Kuleana Green Business Program offers benefits to members that qualify in these categories, such as: use of a Kuleana logo in promotional materials and a window decal; participation in special sections of Chamber publications and website; unique business marketing campaigns; and eligibility for an annual Kuleana Award for outstanding leadership. In addition, an educational program helps interested businesses adopt more socially and ecologically sound practices. For example, the 1st Annual Kuleana Green Business Conference on May 4 at the Outrigger Keauhou Beach Resort, part of the month-long Kona Earth Festival (www.konaearthfestival.org), is an opportunity to learn about local examples of socially and environmentally friendly business practices. The conference features special guest Carsten Henningsen, a national pioneer in environmental business and Chairman of Portfolio 21, the largest sustainability-focused U.S. mutual fund. For more information on the conference and the program, visit www.kona-kohala.com.

Every step we take to shop at conscious businesses reinforces business' interest in social and environmental responsibility. This helps realize humanity's potential to steward healthy communities, contribute to planetary health, and improve quality of life worldwide. This involves aligning our values with our shopping, and investing habits and honoring those who make a commitment to ethical business practice. In so doing, consumers can make purchasing decisions which reflect their values and businesses can attract attention for embracing their kuleana to model integrity and stewardship in their operations.

SRI Mutual Fund Profile – Calvert Large Cap Growth Fund (Symbol: CLGAX)

This is the first article in a new feature we're presenting called SRI Mutual Fund Profile. Each edition will briefly review a socially responsible mutual fund that we at NIS are recommending as a part of our model portfolios. This time we're looking at the Calvert Large Cap Growth Fund.

Calvert is a mutual fund family that has been committed to socially responsible investing since 1982. In that year, they launched the first mutual fund to actively oppose apartheid in South Africa. Since then, they've grown into one of the most respected, and largest socially responsible mutual fund families.

"Large Cap" is an industry term that describes a mutual fund using a strategy that places it's investors' money into a variety of stocks of very large-sized companies, mostly or entirely based in the U.S. The NIS Research Team has selected the Calvert Large Cap Growth Fund specifically to fill this important role in our client portfolios.

A fellow named John Montgomery has managed this fund for Calvert since mid-1994, and frankly we're glad to have had his service. John was previously a research engineer with MIT.

So, he may not be a rocket scientist, but almost! He has done an excellent job of selecting promising socially responsible companies. Over the five years ending 03/31/06, the fund has provided an average annual return of 9.25%. The average fund in this category has returned just 1.67% over that period - that's a whopping 7.58% annual premium!

John uses a special proprietary system of five different stock selection models to help him make decisions on which stocks to buy and sell. He credits this unique system of "offsetting models" for the fund's record of excellent returns and moderate volatility. He uses "quantitative analysis" for finding companies with strong potential. This simply means he uses statistical models to help him analyze and find socially responsible companies which he believes are likely to perform well. In the securities industry, quantitative analysts are affectionately referred to as "quants." So, John is our favorite quant!

And, Calvert equity funds have earned the "5 heart" NIS Social Rating for the depth and range of social screening practices of the fund. This fund is living proof that socially responsible investments can provide competitive returns.

Part of our job here at NIS is to carefully monitor the more than 150 socially responsible mutual funds available in the market place today. That continuous scrutiny helps us to identify and recommend top prospects like the Calvert Large Cap Growth Fund.

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Bush Proposal Would Allow Polluters To Go Mum

Here at NIS we try to keep focused on investing rather than politics, but sometimes they collide. A Bush Administration proposal to roll back Americans' right to know about chemical hazards in their neighborhoods would let industries handle millions of pounds of toxic chemicals a year without telling the public, according to the Environmental Working Group (www.ewg.org).

Currently, the U.S. Environmental Protection Agency's Toxics Release Inventory (TRI) program requires industrial facilities to report annually the release, disposal, incineration, treatment or recycling of 500 pounds or more of 650 chemicals covered by the law. But last fall the EPA proposed sharply raising the reporting threshold so that only releases of 5,000 pounds or more would be reported, and reports would only be required every other year.

"The right to know what hazardous chemicals are coming out of the smokestack across the street from your child's school is essential," said EWG Vice President Bill Walker. "The Administration's proposal makes it easier for industries to pollute our communities with hazardous chemicals—in secret."

What does this have to do with Natural Investing? Plenty! For example, a few years ago researchers at the Calvert Group noticed that Tyco's toxic emissions were increasing, so they sold the stock. Soon thereafter Tyco's stock price plummeted when scandals hit the front pages. As so often happens, a company's shortcomings in environmental or social areas can indicate more serious problems with management.

According to Senator Jim Jeffords in a *NY Times* op-ed, after Hurricanes Katrina and Rita, first responders used TRI data to identify factories and industrial sites where toxic chemical releases would have been possible. A Texas community used such data to inform the public when companies were polluting the rich shrimp and oyster breeding grounds in the Gulf of Mexico.

NIS has joined other socially responsible investment companies to protest weakening the TRI. We're in good company – a bipartisan group of 12 state attorneys general have joined in opposition to the agency's proposal, arguing that it would impede governments, first responders and citizens from protecting people from the harm caused by toxic chemicals.

Since the TRI disclosure requirement went into effect in 1998, the volume of toxic material released in the United States has been cut in half. By shining light on industry behavior, state regulators have been able to protect public health. This is also a social equity issue, as many of the worst pollution problems are in low-income neighborhoods. We would like Congress to improve the TRI by including comparative data over time so we can see if companies are cleaning up their act or getting worse.

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