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Hal Brill's **VIEW FROM PAONIA**

On the drive home from visiting my parents and the NIS San Luis Obispo office, Allison and I were treated to a blast we'll long remember. After crossing the Mojave Desert in our little Honda, we pulled into Needles, California at sunset. Eager to turn off the A/C and enjoy the evening air, we rolled down the windows. Wow –we were slammed by what felt like a bevy of hair dryers! The teenage girl sweltering in the Route 66 Burger Hut proudly (Needles bested Death Valley) informed me that it hit 127 degrees that day as she handed me a milkshake.

The heat wave of July, 2005 was strong and even deadly. At the G-8 meeting, despite a call to action by other nations, President Bush held firm in opposing measures to combat global warming because it might "harm economic growth". This red herring must be refuted! We need to prove that companies who are proactively addressing climate change are also profitable. To do this, KLD Research and Analytics – the company behind the Domini 400 Social Index – has launched a new index called the KLD Global Climate 100 (GC100). The GC100 includes companies developing renewable energies such as solar and wind, future fuels such as hydrogen, and innovations that reduce emissions of greenhouse gasses. It will focus attention and attract investment capital to these sectors.

I don't want to brag, but when KLD's president Peter Kinder announced the GC100, he wrote to NIS's co-founder Jack Brill thanking him for connecting him with Peter Meisen of the Global Energy Network Institute, a research nonprofit that helped KLD develop the index. In hearing my father recount how he introduced the two Peter's, I was struck how a simple action can have a profound impact. We never know when something we do will help someone else. I'm sure Needles will always be hot, but hopefully the GC100 will help companies forge solutions to the enormous challenge of global warming.



Michael Kramer's **LIVE ALOHA**

The Gap Comes Clean

In the world of Socially Responsible Investing, the aim of shareholder activism is to help companies evaluate and improve the ways they operate.

But many corporations avoid full disclosure of the social and environmental costs of their business practices for fear of negative publicity.

That's what makes Gap Inc.'s "Social Responsibility Report" a watershed event. The first-ever of its kind, this report examines how well factories around the world are complying with its own vendor code. Having a vendor code in the first place is a significant step, something Wal-Mart and other retailers and manufacturers still resist. First created in 1996, the code requires the 3,000 factories in 50 countries which produce Gap clothing to fully comply with the labor laws of those countries, protect worker health and safety, and pro-

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Christopher Peck's **HOLISTIC SOLUTIONS**

Scenario Planning, or How Not to Fall for "The Sky is Falling!"

Lately almost every day someone has asked me some variation of the following question: "Hey Christopher/ financial advisor/money dude/human, I've been reading about Peak Oil/falling dollar/pending terrorist attacks/trading account deficits and I'm thinking about selling my stocks/bonds/mutual funds/house/child and then moving to Costa Rica/buying gold/joining the Hare Krishnas/taking hunting lessons. What do you think?" I don't intend to denigrate anyone's opinions here, but when everyone is asking you essentially the same question, one begins to develop some theories along with the stock answers. So this article is about one of the strategies I use: scenario planning.

Scenario planning helps decision makers by introducing them to significant interactions of major variables, and



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TO FILL OR NOT TO FILL? NEW GAS BOYCOTT & “BUY-COTT” SEEK TO STEER MOTORISTS

Pumping gasoline into our cars – no matter how fuel-efficient they may be – is a distasteful fact of life for most of us. Although biking, walking and taking mass transit are preferable, they are not always practical. But there are still ways to be mindful, as oil companies are not alike. Two recent initiatives have caught our eye:

BOYCOTT: EXXONMOBIL

I haven't filled my tank at an Exxon station since the horrific Valdez oil spill in 1989. To this day, what is now ExxonMobil is still appealing a 1994 court ruling ordering them to pay \$4-\$5 billion in punitive damages to fishermen, Alaskan Natives, and others injured by the oil spill. ExxonMobil has acted consistently to move our country backward on energy policy by opposing efforts to stop global warming, lobbying to drill in America's most pristine wilderness areas, and failing to promote renewable energy and fuel efficiency.

On July 12th, a coalition of groups (including the Sierra Club, MoveOn.org, and the Union of Concerned Scientists) launched “ExxposeExxon.com”. “We are asking all Americans not to accept a new job at ExxonMobil, invest in the company, or to buy their gas and products,” stated the coalition in a letter to CEO Lee Raymond. This is the kind of action that we at NIS like to see – a combination of consumer, worker and investor activism. Socially responsible shareholder activists have long been a perennial presence at the company's annual meetings.

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Michael's **LIVE ALOHA** continued from cover

tect the environment. There is an anti-discrimination policy, a prohibition of underage or involuntary contract labor, and the requirement of decent wages, work schedule, and working and housing conditions. The code also allows workers to organize to address their concerns with the factories.

What makes the Gap's efforts outstanding is its willingness to measure how well factories are complying over time. The most recent report revealed, to the company's dismay, a variety of health and safety infractions, substandard wages, and environmental hazards. More importantly, the company vowed to fix all the problems. It employs 90 Vendor Compliance Officers who visit every factory every year, and as a result of their monitoring, over 130 factories have been removed from its list of eligible manufacturers. This is the type of accountability which we hope to see in all corporations; it is one thing to have a code or a policy, but an entirely different matter to enforce it and stop production for such violations. Most of the violations occur in China, Cambodia, Lesotho, and India, and clearly the various political and cultural differences may have something to

do with that, but the company is not daunted by this reality. Rather, they now see exactly where they need to focus their efforts.

The company works with each factory to improve labor standards. In Mexico, for example, nearly 25% of all workers were paid substandard wages, and this will stop. In China, various inefficiencies and wage problems resulted in the company using the Hong Kong Productivity Council as an intermediary to improve working conditions in these plants. The initial factory approval process also has become more stringent, and 90% of all first-time applicants do not pass its code of conduct. Based on its assessment of frequent or habitual violations, compliance officers are able to develop training programs or other projects designed to get to the root of the problems.

The Gap's environment program focuses on conserving energy and resources, including its retail outlets, saving an estimated \$1.5 million annually from efficiency measures alone. The company is also creating sustainable buildings for its own offices, which include a native grass roof, passive cooling systems, day lighting, certified

wood, low-toxic and recycled materials. The company is committed to recyclable and recycled packaging, the use of post-consumer materials, on-site recycling, composting in company cafes, environmentally friendly hazardous waste disposal, and low-mercury fluorescent lighting and non-formaldehyde shelving in all its stores.

The Gap sees itself as an industry leader, and has used its bold initiative to influence its peers in the industry. The company has become increasingly involved in constructive dialogue — and in some cases joint initiatives — with apparel companies, garment manufacturers, workers, non-governmental organizations, community leaders, unions, activist groups, governments, trade associations, socially responsible investment groups and more, in order to raise the overall bar of the entire garment industry. Rather than viewing this as a potential competitive threat, the company views ethical business practice as an ethical global standard worthy of collaboration. As Chief Compliance Officer and Executive Vice President Lauri Shanahan states, “How we do business is just as important as what we do.”

Christopher's **HOLISTIC SOLUTIONS** continued from cover

presents those interactions in the form of short, meaningful, memorable, and creatively titled stories, known, surprise... as scenarios. Developed by military planners and used extensively by large corporations, most notably Royal Dutch/Shell, it's a useful tool for thinking about big trends occurring in the world, and how to make sense of the future. But let me back up a little and explain some of the context of why I think scenarios are interesting and important.

The place I start when talking about scenarios is what I call the "key point": we cannot predict the future.

Accepting the fact that we cannot predict the future is essential for understanding portfolio management, asset allocation, in fact all kinds of planning and decision making processes and tools. When I'm talking with people face-to-face I usually make a funny little fist (like the way the left hand is held during Single Whip, for Tai Chi players), and use this as a referent for the key point – we cannot predict the future. I wave my funny fist around a lot, and can even slam it down on the table to really make the point: we cannot predict the future. Now, you might have special powers to predict the future; if so, please contact me immediately, I have some investments for us to play with....

OK, so let's say we've accepted the key point (yes, everyone say in unison, "we cannot predict the future"), our next question is, what do we do then? We don't just throw up our hands in

despair, we have to do something, to take some action. Usually folks will perk up at this point, and though wary of my funny fist, will say something like "Sure, we can't predict the future, but what about trends? We see major trends all around us, certainly that gives us some predictive capacity, right?" Still brandishing the funny fist, I launch into a profound and lucid explanation of complexity mathematics (aka chaos theory), predicting the weather, how the stock market is like the weather, and so on, which I won't go into here, due to space constraints. Suffice to say everyone's dutifully convinced that even knowing major trends, we don't have predictive capacity. Or at least we can't predict which one single outcome will prevail. And that's really the whole point isn't it? I think we all understand intuitively that there are many possible futures, we just want to know which single possible future will come about, so we know which way to bet the farm, or how to save the farm.

And that's the challenge underlying the essential pressing question I opened with: we're afraid of guessing wrong, that the one possible future scenario we've been hearing so much about, with all of its dire predictions, will come about. We're afraid that we're not adequately prepared for that one horrible future, and want to take suitable measures to protect ourselves and our families. It's not made any easier when everyone around you is also mildly freaking out about the horrible future;

to question it is to be in denial, stupid, or even worse, out of it. It's not hard to see where all of this comes from: bad news sells, doom and gloom is compelling, easy email ensures access to angst, rational planning is not sexy, and so on.

Let's assume that you're convinced of my argument up to this point: 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. Assuming all that, we still need rational planning. We need some way to make decisions in a meaningful way that can guide our actions now, to best position ourselves for whatever future may come about. Scenario planning to the rescue! As you can see, I've reached the end of this article, it's to be concluded next newsletter. If you can't wait 3 months to find out how it all turns out, email me, and I'll send you the stunning conclusion. In the meantime, don't fall for the one horrible future pitch, and stay peaceful.



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BENCHMARKS: TOTAL RETURNS AS OF 6.30.05

	2nd Quarter	1 Year	3 Year
S&P 500 Index	1.4%	6.2%	8.3%
Domini Social Index	1.6%	2.4%	7.6%
Russell 2000 - Small Cap	4.3%	9.4%	12.8%
Lehman Aggregate Bond	3.0%	6.8%	5.8%

WHAT'S UP ON

WALL STREET? By Hal Brill

Just when it seemed like the stock market would drift lower and lower, suddenly it woke up and turned in a decent 2nd quarter. It's hard to fathom exactly what tickled its fancy; rising oil prices and the ongoing drain of the Iraq war are not exactly bullish. But corporate profits – that all-pervading driver of stock prices – remain strong as the American consumer continues to shop. As a result, U.S. equity mutual funds showed gains for the quarter. Bond funds also rose despite continued interest-rate increases by the Federal Reserve.

On the international scene, the U.S. dollar continued to confound skeptics by rising several percent against the world's currencies. The dream of a unified Europe took a detour as France

and the Netherlands voted down the European constitution. This is a fascinating dynamic playing out as Europe seeks to chart a course that honors its "social welfare" heritage of taking care of its citizens while trying to reinvigorate its economy. It remains to be seen if the European Union will choose a path of unification or splinters back into smaller economies. The rising dollar has hurt the performance of international equity and bond funds, which were the weakest performers for the quarter.

The biggest talk in financial circles is not stocks and bonds, its real estate. Yes, the fever has reached a frenzy. Here in Paonia, three real estate companies have refurbished buildings downtown and lure passer-bys with video screens showing properties. A dear friend asked me if she should put her social security money into rental property. I'm beginning to get concerned.

Much has been made of the similarities of the real estate craze to the dot-com bubble of the late 1990's. There are similarities. In the dot-com bubble, investors were going on "margin" (borrowing against their portfolio) to buy more shares than they could afford. Today, real estate investors are using interest-only or adjustable-rate mortgages to buy more property than they could afford with a standard 30-year mortgage. The risk is that if interest rates rise, people will not be able to meet their payments and be forced to sell, driving down prices. Of course homes are not dot-com stocks; there is always some intrinsic value so they won't drop to zero. But it is still prudent to consider that the stunning rise in property values, especially in hot markets, cannot continue indefinitely and that there have been times when real estate investors have lost a lot of money. Please talk to your NIS advisor about any questions you have.

BOYCOTT/BUY-COTT continued from page 2

A report on the www.ExxposeExxon.com website gives details of how ExxonMobil:

- Is the only oil company remaining in Arctic Power, the group lobbying to open the Arctic Refuge to drilling
- Has provided \$15 million to junk-science attempting to hide the facts about global warming
- Refuses to invest in renewable energy, calling it "uneconomic" while earning \$23.5 billion in 2004.

ExxposeExxon is not the only campaign against the company; StopExxonMobil.com has brought attention to human rights abuses in Indonesia and war profiteering from Iraq. This is one stubborn corporation, so let your friends know that they can help by fueling elsewhere.

BUY-COTT: CITGO

What is the opposite of a boycott? According to media critic Jeff Cohen, it's a BUY-cott. In a widely circulated article on www.commondreams.org Cohen points out that Citgo is a wholly-owned subsidiary of Venezuela's state-owned oil company. Venezuela's president Hugo Chavez is causing the Bush administration fits. Chavez believes that his country's oil money should be used to help the poor. Chavez's policies are bringing renewed vigor to South America, as country-after-country (Bolivia being the latest) seek to find their own path that does not rely on trickle-down, U.S.-style capitalism.

By fueling at Citgo, your money stays out of the Middle East and helps support literacy, food and health care programs. There are over 14,000 stations in the U.S. (here in Colorado I've found them at 7-Eleven stores). You can find a Citgo Locator at www.citgo.com and also read about the company's commitment to community and the environment.

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