



NATURAL INVESTMENT *news*

WINTER 2006 HAL BRILL CHRISTOPHER PECK MICHAEL KRAMER JACK BRILL SCOTT SECREST WWW.NATURALINVESTING.COM



Scott Kate Hal Sandy Allison Jack

Hal Brill's VIEW FROM PAONIA

2005 was a big year for the NIS family. This photo at the GreenFestival in San Francisco in November captures some of the joy and gratitude we have for doing the work we do. And it is perfect for introducing the newest member of our team, Scott Secrest (with the big smile on the left). He lives in San Luis Obispo with his wife Kate (2nd from left).

I first met Scott in 1993 at an *SRI in the Rockies* conference. He was working for Working Assets, one of the first SRI funds. He went on to work for Charles Schwab & Co. as a financial advisor. He learned about NIS when he met Jack and Sandy, who live about a mile away from them. Jack has given a few talks about SRI but is no longer taking

new clients. So it really is a great match – we needed someone to work with new people and Scott was eager to combine his investment industry experience and his progressive principles.



Michael Kramer's LIVE ALOHA

COMMUNITY INVESTING

Investing in the South after Katrina
Hurricane Katrina revealed symptoms of systemic racism that has plagued segregated New Orleans and

many communities in the South for generations. Addressing this dynamic and creating a more just social ecology is one of the key purposes of socially responsible investing (SRI).

The immediate and generous outpouring of charity – as necessary and wonderful as that was to deal with the crisis – must now turn towards investing in the people that live there. This is how people whose lives were disrupted can get their financial lives in order, reclaim small businesses, rebuild affordable housing, and restore basic infrastructure in poor neighborhoods.

The SRI community, among others, is using the restoration process as an opportunity to assure that the poorest minority

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Christopher Peck's

HOLISTIC SOLUTIONS

SCENARIO PLANNING, OR HOW NOT TO FALL FOR "THE SKY IS FALLING!", PART III

In the last two newsletters I've discussed the wonder solution to all our problems: scenario planning. I brilliantly summarized my argument 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 now, to best position ourselves for whatever future may come about. Scenario planning to the rescue! I went on to explain what scenarios are, and outlined six that I've been working with, from dystopia to utopia: Mad Max, 12 Monkeys, The Long Decline, The Long Boom, Ecotopia, Star Trek. (If you missed the first two halves, email me and I'll send



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Christopher's HOLISTIC SOLUTIONS *continued from cover*

you the complete article.)

In this the third half, I'll discuss how you could develop scenarios for you and your community. I've mentioned some of the benefits of using scenarios: it helps us maintain a sense of possibility, keeps creativity engaged, keeps us rational and not too emotionally reactive, and fights despair without being too Pollyanna. Sounds good, and it's not hard to do either!

DOING SCENARIO PLANNING

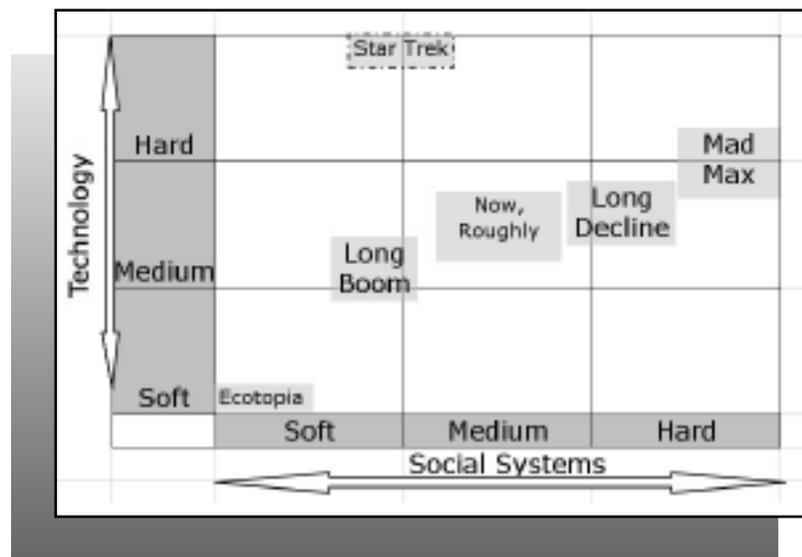
Begin by determining the question you want to consider. In my example I took two trends as a given: rising energy costs brought on by peak oil and global climate change. Those two trends are a virtual certainty, and huge! We can't wish our way out of them. When you work your own scenario planning you can choose other factors, such as technology changes in your industry or the emergence of a new competitor or continued dominance of the Republican party (arggh!). Use these factors to form a question such as, what kind of future will be living in, based on the realities of rising energy costs and global climate change?

Then take a couple variables, which might be placed on a continuum such as the political continuum from conservative to liberal. In my example I plotted out the two primary approaches given to address global problems: technology and social systems. Technology I plotted on the y-axis and social systems on the x-axis. The outer ends of both I defined as "hard," and the inner areas as "soft." Soft technology is the decentralized, locally grown, non-polluting, small is beautiful approach as proposed by Amory Lovins and E.F. Schumacher. The hard technology approach is new nuclear power, nanotechnology bioremediation, "we don't know how, but technology will save us" approach popularized, say, in *Wired* magazine. Hard social systems are centralized, unilateral, autocratic, "you're with us or against us,"

moving towards fascism and the rule of the strong. Soft social systems are egalitarian, democratic, collaborative, network based, and maybe an enlightened United Nations.

Since I love complex matrices, I couldn't leave it at hard vs. soft, I included a middle zone, so the x- and y- axes both have hard – medium – soft. Here's my rendering of how this turns out.

Obviously I've done some short-cutting here. I mapped out the two variables, and looked at the various interacting areas, such as "hard technology-soft social" and thought about how a progression of this interaction of factors



would respond to the big question I posed about global climate change and expensive energy. I then labeled some of the areas that stood out as seemingly viable scenarios. I put a dashed line around the Star Trek scenario, as it requires a couple of discontinuities in the progression of technology, as we currently understand it. Some areas have no scenario box floating in them, as I couldn't conceive of what a hard political system would look like with a very soft approach to technology. Let me know of better scenarios you think of.

You could get a bunch of your friends together and plug your own variables into a similar matrix, ask some big

questions, and think about what the results might be. Hopefully you'll be able to suspend your assumptions about the future long enough to get some insights. (Email if you want more details, I can send you a couple of articles.)

OK, enough overly-intellectualized, anally-matrixed, "what does this have to do with me" thought exercises. What practical use can this type of thing be? Mapping this out makes the extremes look impractical. Do we really believe that we'll combine the softest progressions of social systems with the softest approach to technology, especially in light of the two big factors (peak oil & climate change) coming down the pike?

At the same time, Mad Max looks like it's pretty far from likely, with everything, particularly the social system, becoming much more severe than we currently experience it.

My belief is that groups of creative folks (like ourselves) can engage in deep, thoughtful exercises, and by so doing help re-vision a future that looks much more like what we want to be living in. I also believe that scenario planning gives us a broader perspective to guide our actions, minimizing our doomsday fears (while helping us rationally plan for real looming disasters), and helping us do the essential work that needs to be done, and building the sustainable world we deserve.

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

neighborhoods will receive their fair share of both government and private investment capital. This involves creating jobs, decent loan rates, and adequate social and human services within the context of racial justice.

Natural investors have been supporting this beginning just days after the storm. Many NIS portfolios include two funds that have invested in Southern communities ravaged by Hurricane Katrina. The first, CRA Fund (ticker CRAIX), a fund that invests in community projects to help banks and credit unions fulfill their local obligations to the Community Reinvestment Act of 1977, started a New Orleans/Gulf Coast Initiative to generate \$100 million of investment in local communities.

The other investment opportunity is through Calvert Foundation's Community Investment Notes, which last year became available through Schwab. The Notes support hundreds of community development financial institutions (CDFI) worldwide. Since the hurricane, the Foundation has specifically supported bridge loans to Hope Community Credit Union, which has long served the African-American New Orleans community. Hope has created no-fee accounts so residents can receive FEMA funds and supplies bridge loans for repairs, down payments and deposits for rental units. The Foundation is also directing funds to the Southern Mutual Help Association Rural Recovery Fund and Mercy Corps, an international relief and development organization.

The SRI industry is also encouraging companies engaged in the rebuilding effort to have greater employee and management diversity and end discriminatory hiring and lending practices. Unfortunately, shareholder advocacy cannot exert influence on the practices of the thousands of companies too small for stock investment, or those

not publicly traded. Calvert Foundation published the Katrina Business Guidelines for Responsible Rebuilding – to facilitate justice, fairness, equal opportunity, and a respect for laws created through the American democratic process. The Guidelines include: affirmative action and minimum wage laws; environmental protec-

“MANY NIS PORTFOLIOS INCLUDE TWO FUNDS THAT HAVE INVESTED IN SOUTHERN COMMUNITIES RAVAGED BY HURRICANE KATRINA.”

tion; safe and healthy workplaces; fair lending; partnerships with nonprofit agencies representing marginalized populations; employee involvement in community development; energy efficiency; and public transportation options and renewable energy sources.

Implicit in these guidelines is the notion of corporate board-level responsibility for social and environmental issues and the integration of corporate responsibility policies and practices into everyday business. Hurricane Katrina revealed a system that is broken. The SRI community is using this opportunity to affect major change in the way business is done and for whom business benefits.

SHAREHOLDER ACTIVISM

The 2005 and 2006 Proxy Seasons

The 2005 proxy season contained nearly 600 shareholder resolutions on corporate governance, human rights, consumer safety, and the environment. Successful dialogue and increased corporate awareness of social issues led to the withdrawal of many proposals, so only around 200 of the resolutions went to a vote. Much of the focus was on increased management disclosure, often asking companies to assess the financial impact that its policies and operations have on the company. Mainstream and institutional investors are finding that social and environmental liabilities are financial and legal risks which should be addressed by management.

The season was highlighted by majority-vote director election proposals. They seek to replace the current system whereby directors need only a single vote to be elected. Majority support was garnered at 16 companies, and support for the resolution has averaged 44% at over 60 shareholder meetings. This is a fourfold increase over last year's average, resulting in many companies beginning to develop new processes for how to implement majority elections for directors.

The highest SRI vote – 56 percent – went to a resolution asking Plum Creek Timber to report on its political contributions. There were 18 SRI resolutions that received more than 20 percent support. Twelve of those were requests for reports or reviews of practices, such as a resolution asking Yum! Brands to prepare a sustainability report that garnered 39 percent support.

Additional international regulations and legislation impacted companies

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For consultation or more information on social investing, contact Jack A. Brill, Hal Brill, Michael Kramer, Christopher Peck or Scott Secrest.

Michael's **LIVE ALOHA** *continued from page 3*

this year as well. Some examples are the adoption of the Kyoto Protocol, creation of more robust EU guidelines on toxic chemicals, ongoing scrutiny of human rights abuses in developing nations, and continued concern of corporate operations in nations deemed to sponsor terrorism. One effect of shareholder resolutions is to inspire companies to voluntarily adopt a measure in response to a proposal (or to avoid the filing of such a proposal.) For example, Pfizer recently adopted a policy that would ask directors who get a majority

withhold vote to resign, essentially implementing a voluntary version of majority elections, A number of other companies are following suit.

There will be continued persistence of resolutions and dialogue on corporate reporting on the impacts of climate change of company operations and assets. Apache, ChevronTexaco, Tesoro, and Unocal all are agreeing to measure, mitigate, and disclose data on the environmental impact of their businesses. This effort will expand to the manufac-



WHAT'S UP ON WALL STREET?

Planet Earth went through some convulsions in 2005, but the market seemed

companies for many years, and I've never seen anything like what happened in 2005. Some companies saw their stock price triple during the year. Certainly some of this is manic behav-

turing sector this year, which continues to face resolutions and dialogue in the areas of human rights and supply chain management. This may explain Wal-Mart's recent announcement to hold its 1,000 Chinese manufacturers to the same labor and workplace standards as its American counterparts. It appears that global codes of conduct are gradually becoming more accepted. All of this activity exemplifies the goal of shareholder action, which is not simply to garner high votes for shareholder resolutions, but rather to effect corporate change.

We seem to be in a calm place for the moment: energy prices have stabilized, overheated real estate markets have cooled but not crashed, and the bird flu has yet to mutate into a human-to-human contagion. What will the big new thing to worry about be in 2006? While we're waiting to find out, Natural Investors will stick with our long-term strategies of avoiding the worst companies while seeking investments in affirmative, life-enhancing endeavors.

BENCHMARKS: TOTAL RETURNS AS OF 12.31.05			
	4th Quarter	1 Year	3 Year
S&P 500 Index	2.0%	4.9%	14.4%
Domini Social Index	2.8%	3.0%	13.4%
Russell 2000 - Small Cap	1.1%	4.6%	22.1%
Lehman Aggregate Bond	0.6%	2.4%	3.6%
MSCI (International)	4.1%	13.5%	20.8%

to shrug it all off, ending up a wee bit higher than where it started. Both stocks and bonds showed small gains for the year. These end results don't tell the whole story; there were gale force winds battling each other trying to get the market to either rise or fall.

The economy kept humming as interest rates were low and housing was booming. But every time the market tried to rally, it was pushed back by high energy costs, natural disasters, and the relentless Alan Greenspan who kept raising interest rates.

There were some bright spots – and perhaps the brightest was solar energy! I've been following the stocks of solar

ior caused by high oil prices as investors look for the next big thing. But we are seeing the industry grow at a rapid clip.

The biggest surprise was the strength of the US dollar. You may remember that one year ago people were worried about the falling dollar, that the Bush Administration would bankrupt our currency and Europe would become the world's dominant economic power. As usual, the predictive powers of "experts" are quite fallible. As it turned out, the European Union failed to agree on its constitution while investors around the world continued to purchase US dollars because of its perceived stability.

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