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Making a Difference

Policy Priorities for a New Administration

by Michael Kramer

In my role on the national policy committee of the Socially Responsible Investment (SRI) movement's trade association, USSIF: The Forum for Sustainable and Responsible Investment, we had a wonderful legislative priority document prepared in October for the new President. Like many others, we expected to have the opportunity to build on the many successes of our advocacy with the Obama Administration on a variety of issues to protect the public from systemic abuse by the financial industry, encourage wider adoption of SRI by fiduciaries, and facilitate investment in the green economy. For responsible investors, the Obama years were very encouraging indeed, and we at USSIF had an ambitious agenda ready to share with the Clinton transition team to expand on these victories for investors and the public.

Naturally, with the election result everything has changed, and we now find ourselves in a radically different political climate that demands a defensive stance to protect recent laws and regulations from being dissolved. When it comes to issues of importance to sustainable and responsible investors, the Republicans in Congress, long opponents of most regulations—especially relating to business and investing—now have an ally in a President who shares their belief in small and minimally intrusive government. That's why within the first months of this Administration we're seeing efforts to unravel the reforms to the financial system that were established during the Obama Administration. They've already removed the Dodd-Frank provision that required companies to disclose payments (i.e., bribes) to foreign governments to extract fossil fuels and minerals from often-oppressive governments.

The Republicans have their pitchforks raised in outrage over a broad array of regulatory protections, and the fight is now on to:

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Holistic Solutions

Appreciating Appreciation

by Christopher Peck

Recently I talked with a client who is considering buying a house in Sonoma County. As you might know, the housing market here in the Bay Area is variously described as "crazy," "red hot," "ridiculous," and "divorced from reality." A similar situation prevails in many cities and towns across the country. Should a smart home buyer take the leap now or wait and hope for prices to drop? How do you evaluate whether renting or buying is the best strategy?

The comment sections of innumerable personal finance blogs are strewn with the wreckage of the battle—no, the war—around this question. It's nearly as hot as the debate over whether to pre-pay a mortgage or not (don't get me started). As a math major, I like to look at the numbers myself, play with calculators, build my own spreadsheets. After hours of work on this my definitive answer is "it depends." Seriously. It depends on a bunch of factors, but actually pivots on one big factor.

For starters, spend some time looking at buy vs. rent calculators. Michael Bluejay's How to Buy a House website offers a powerful overview of every possible factor, though the profusion of graphs and charts really requires your time and attention. One thing you can't see in Bluejay's calculators is which factors are most relevant, something that the New York Times' brilliant buy-rent calculator shows you immediately: the slider for each factor includes an integrated chart that helps visualize how important the factor is to the overall outcome. Their calculator has twenty-one factors, including the obvious like inflation rate and investment rate of return; it also includes rental costs and homeowner's insurance. But the truly stand-apart feature is the importance charts. For example, your marginal tax rate doesn't influence the decision to buy or rent very much, but the home appreciation rate does. The less important factors are inflation rate,

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- protect the Consumer Financial Protection Bureau
- preserve the CDFI Fund that provides capital to community development credit unions, banks, and loan funds
- prevent the repeal of the CEO-to-worker pay ratio rule
- prevent the repeal of the fiduciary rule that prohibits investment advisors from selling products that benefit them rather than investors
- maintain the rights of shareholders to file resolutions on environmental, social, and governance (ESG) issues, and
- commit to the Paris Climate Agreement and the Clean Power Plan

We have our work cut out for us to stop an all-out assault on important protections of labor, consumer, and investor rights, as well as to prevent the warming and desecration of the planet. The current Administration seeks to go back to the Wild West days of unabashed capitalism, where government oversight and corporate transparency are seen as undue interference with profitability, and where the environment has no inherent value other than as an externality to be exploited.

To this end, we have been focused on our industry's primary regulatory body, the Securities and Exchange Commission, and the Administration's proposed SEC Chair Jay Clayton. We have provided key Congressional allies with questions to use in his confirmation hearing, including:

1. What steps will you take to ensure that the interests of small investors are protected?

2. How would you characterize the SEC's mission to serve the public interest?

3. What is the SEC's role in addressing the significant financial and economic risks of climate change? Do you support greater disclosure of corporate policies regarding climate risks and opportunities to provide better information for the efficient functioning of financial markets?

4. How do you plan to protect the voice of American investors and maintain the integrity of the shareholder proposal process?

5. What is your intention to continue to pursue better and greater corporate social and environmental disclosure demanded by investors as indicated in their responses to the SEC's recent Disclosure Proposal?

6. In 2011, you wrote a paper critical of the Foreign Corrupt Practices Act. As SEC Chair, would you commit to vigorous enforcement of the Act?

7. More than a million people have called on the SEC to require companies to disclose political spending. Do you believe that disclosure of corporate political contributions is material to investors?

It is our hope that the answers to these questions will reveal that Mr. Clayton should not be confirmed as SEC Chair, but it is likely that as you read this he has already taken the seat.

The Silver Lining

On a positive note, the federal government's positions are activating significant opposition, and many people who have remained on the political sidelines are now passionately engaged in a variety of issues in both red and blue states.

We also will happily support any significant investment in public infrastructure, especially if it improves access in rural communities, improves public safety, encourages public transportation, and expands the use of renewable energy.

The SRI movement is seeing increased interest in responsible investing, as people are fed up with the status quo, with the Wells Fargo fraud being a recent catalyst for action. Assets invested using one or more strategies of sustainable, responsible, and impact investing have been on an upward trajectory for decades, and saw a 33% increase in the past two years alone. This trend will continue regardless of what the federal government does.

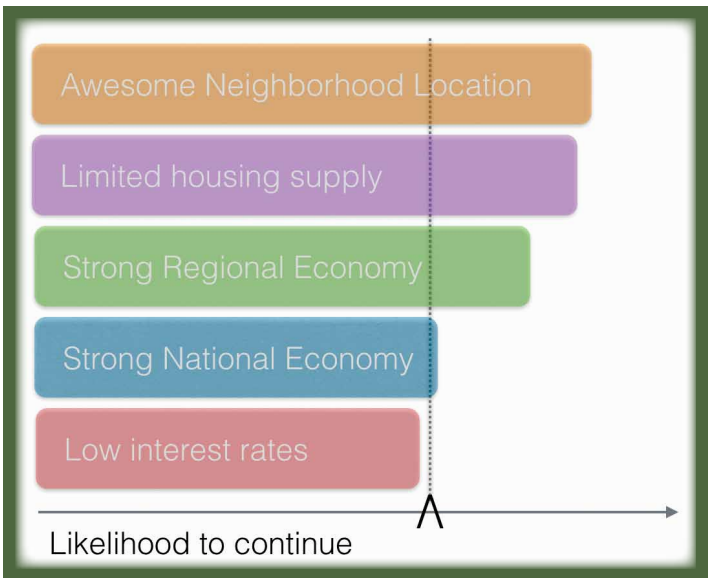
And if important environmental and social issues (such as climate or political contributions) are not addressed by this President and Congress, the private sector along with state and local governments will pursue this path more aggressively, likely leading to a further acceleration of sustainable investment.

We will remain committed to the policies we have long advocated, including mandatory corporate ESG disclosure, a national plan to remediate climate change, sustainable investment options in the Federal Thrift Savings Plan, completion of Dodd-Frank regulations, promoting the ability of corporate pension plans to add ESG options, and ensuring that funding for Community Development Financial Institutions remains robust.

We know the likelihood of success in the immediate future is unlikely. But just as investors do, we maintain a long-term perspective on change, and we recognize that mid-term elections are only 18 months away. Laws and regulations change depending on the political winds, but fortunately, American society overall continues its remarkable progress towards a more ethical, just, sustainable, and conscious form of capitalism.

tax rate, monthly utilities cost, and the extent of your down payment (surprisingly). In order, the factors that make the biggest difference are how long you plan to stay (it's a big deal if you only plan to stay a couple years, then it tapers off), the home appreciation rate, the rate of return on investments, and how expensive the house is. Homeowner's insurance could play a big part in your decision-making if it was really expensive, but it rarely is (flood and fire zones are the exception). And if ongoing maintenance and renovation costs are expected to be high for many years, that can really shift the balance away from buying to renting; this could be a factor if the home inspection reveals issues, or if you've got big upgrade or energy retrofit plans.

But how does all this help you make the decision and what's that most important factor I dangled out there a few hundred words ago? Having spent several hours with this calculator and played out numerous scenarios, I see the home appreciation rate as the big pivot—along with with investment return rates. Those are clearly intertwined, and both are bedeviled by requiring glimpses into the murky future. As I have written here many times, there are no crystal balls, no one can predict the future, and if you meet someone who insists they can, smile politely, put your hand on your wallet and back slowly out of the room. But estimating and planning for future investment returns is much more difficult than "merely" seeing the future!



For this exercise we'll assume you have a cautiously balanced portfolio with modest expected gains. There's much more to say about why we'll make this assumption, so you'll just have to trust me and read my next article! This assumption removes investment returns as a pivotal factor, and leaves us looking for some insight about what influences home appreciation rates in your locale. There are numerous demand-side factors such as area employment and economic prospects; general economic outlook for the state, region, and country; ease of access to credit; possible upcoming IPOs (this is a big factor in tech epicenters); and outside buyers (the Chinese on the west coast and in New York City for example). And of course there are supply side factors that can drive or sustain appreciation rates: limited supply, growth boundaries, planning goals that discourage development, etc. Coastal regions have built in geographical limitations (see San Francisco, Seattle, and Manhattan); peninsulas are especially pricey.

The broader economic outlook for the country or a region is often considered the most powerful driver. But many prime locations in coastal cities never saw price drops during the Great Recession; other factors were more important. If you have a chance to buy a home in Sausalito for example, you should take it (hills or houseboat of course, don't forget climate change).

Let's look at a simplified analysis to get an idea of what I'm talking about. In the graphic I've plotted five factors, and laid them out according to my evaluation of their likelihood to continue over the next five-ten years. This is not a precise system; remember to have a clear idea that there's a fuzzy boundary instead of a fuzzy idea that there's a clear boundary. The dotted line is a hurdle, a threshold past which it's likely that the factor will drive home prices upward. In this example four of the five clear the hurdle, and this would strongly suggest that prices will continue to rise. Even if interest rates rise and the national economy is weak, the strength of the local economy and the awesomeness of the neighborhood will drive prices up. A more sophisticated analysis would probably include fifteen or more factors, but the five in this example are likely the biggest drivers.

This is a good moment to remember the worrying possibility that the next black swan is floating around the bend, waiting to take us down the falls. A black swan is one of those unpredictable and unforeseen events that shakes markets and economies. It's the subprime housing debacle we just lived through, it could be a trade war with China. The nature of the black swan event is that you didn't predict it happening—but that doesn't mean you don't consider what a big disruption might mean for your plans. What happens if real estate prices drop 50% in a year and stay flat for several after that? What does that do to your wealth? How likely is such a catastrophic event? Think very carefully about this set of questions. Careful thought and planning to avoid catastrophe is one of the best investments you can make.

Coming to Grips with Sudden Wealth

by Greg Garvan

Did you ever know someone who was an environmental advocate, or your locavore activist friend, or a deeply religious soul—fill in the blank—who lived their lives with their values-flag writ large? Unless you know them very well, you might not be aware if they've had decisions to make about their money life that have challenged those core values. Spoiler alert: not all these stories have happy endings for these caring souls!

Kristine unexpectedly inherited a significant sum after someone she knew died and left her money (all names are pseudonyms). She is an aggressive activist leader, nationally known and engaged in growing the local community. She has steadfastly moved her money out of mainstream investments and into everything from CDFIs to municipal bonds to progressive alternative offerings. She wants decent returns, but prioritizes her core values as she works with her windfall. One of the new-economy heroes! In the beginning, though, it took some time and dedication to find a financial advisor that would "get" her values and support her non-traditional choices. After interviewing a few advisors and not finding the connect she wanted, a friend recommended her fee-only SRI advisor and Kristine finally found the ally she was looking for.

> *As the grandchildren grew older it was a great family story to be able to talk about using this money to foster social change, especially since it had for so long worked against these values.*

Shawn was a young environmental activist involved in stopping nuclear power plants in New England. As he grew his family, they used electricity as little as possible and added solar when that became financially feasible. They gave generously to charity, primarily to activist groups, and lived mostly off the land, banking at a credit union and investing their modest savings in SRI options. They realized there was a family inheritance to come in later years, but that day came suddenly when a parent died young. They spent a year considering what to do with the large inheritance—perhaps buy more land to expand their CSA or start an earth academy type learning program—but were also influenced by their parents' advisors, who were much more conservative. Sadly enough, they gave in to the pressure, and wound up spending several years deferring their own priorities.

John's parents died when he was just a young parent himself. John and Becky inherited a stock portfolio full of companies that they didn't support at all, with tobacco, defense, and alcohol being the largest categories. Without having an advisor, they did some of their own research, and spent almost a year exploring their options, given the fairly low cost basis embedded in the holdings. They finally decided to give away almost 40% of the holdings to charitable organizations, in part to offset the capital gains tax hit, and they sold the balance of offending positions. Given John's parents' right wing bent, they had quite a bit of fun choosing social change charities that they thought would offset the history of the holdings! They gave to African-American farming groups, union groups, and women's organizations. As the grandchildren grew older it was a great family story to be able to talk about using this money to foster social change, especially since it had for so long worked against these values.

What do we learn from these tales? Most of us live our lives trying to incorporate our core life values into the everyday decisions we make, and we're pretty successful at this. Then, suddenly, you have a source of new wealth, from an inheritance, a sale of a property or real estate—it doesn't really matter where it comes from. What matters is that you consider what impact you want it to have on your life.

Take time to consider if you want to share it with others in some way; and take time to decide whether or how you want this to spark a change in your lifestyle. For some of us, we'll find we are more charitable because we have more. Others will aim to hold onto the wealth, but make sure it gets put into SRI and community impact investments. From what I've seen, very few of us will significantly change our lifestyle, though that is often a fear—the fear of becoming someone you don't think you are, succumbing to a lifestyle that is culturally strong but not in your core values DNA.

Enjoy new wealth, if and when it comes your way. Have faith that as you come to terms with the changes, your values will win out. Ask your advisor for ideas and books that can help you deepen the process—go get 'em!

Quakers and SRI: Some Historic Perspective

by Evan Quirk-Garvan

Quakers are often given credit for being pioneers in the formative era of Socially Responsible Investment. As I was reading an array of early SRI publications, it was easy to see that Quaker traditions and practices have played an important role in this movement's history. While you may not have the same faith as the thinkers and authors quoted here, the lessons and insights are applicable regardless of your spiritual background or beliefs.

When we remember that many of the concerns we are trying to address through our investments are global issues (climate change, deforestation, gender equity and LGBT rights, supply chain/human rights, etc.), it becomes even more important to broaden our understanding. While Quakers come from the Judeo-Christian tradition, universalism is a commonly held belief among Friends, as Quakers are often called. There is diversity among Quakers, and an openness and curiosity about others is central. As Tom Head wrote in Envisioning a Moral Economy, *"To study well the other faith traditions through which all humankind knows and experiences the sacred is especially important in our era of globalization."*

Quakers are one of the three historic Peace Churches, believing there is "that of God" in all people. This has inspired a strong history, still continuing today, of social justice advocacy on pressing topics of the day, from slavery to women's rights, prison reform, and armament issues. As early as 1688, Quaker meetings in the United States were corresponding and discussing the ethical issue of profiting from the slave trade, and in 1758 the Philadelphia yearly meeting unanimously issued a proclamation forbidding its members from participating in the slave trade. ("Meeting" is a term that denotes both a Quaker congregation and its services.)

Could you imagine a church/mosque/temple in 2016 forbidding its members to profit from the fossil fuel industry? Or forbidding its members from investing in and working with predatory or discriminatory financial institutions?

Quakers are a group that values the connection of daily life and spiritual life. In fact, many meetings publish books about the spiritual beliefs of the meeting, entitled "Faith and Practice." Seeing these two as inter-related concepts certainly makes you think twice about honking your car horn at the slow driver in front of you, or grabbing the very last brownie off the plate!

As folks involved with Natural Investments, it seems likely that you have taken time to consciously think about investment decisions and have decided to align your values with your financial life. Congratulations! Now consider whether there are other, or further, steps that can be taken.

Thomas Paxson speaks of his faith not as a system providing concrete answers, but rather as a lens through which one can be more discerning about our choices in the financial world: *"Theology can and does provide criteria for evaluating the adequacy and propriety of human economic institutions and systems without stipulating the structure of the system itself."*

Quakers meetings can be either programmed or un-programmed. In un-programmed meetings, there is no "Pastor" or sermon; Friends sit in silence waiting for spirit to move them to share with the group. From these times of reflection, great and simple wisdom often emerges, to the benefit of all who are present.

To end by looking forward, I want to maintain the Quaker spirit; instead of giving action steps that I believe are appropriate, I will leave you with a couple of final thoughts from Jonathan Dale. From there, you can reflect and listen for your own next steps.

"The economy that we know and experience in the here and now is truly violent. Most wars have underlying economic causes; we see the violence of drug dealing, sex trafficking, and the arms trade, (and) the slow violence of starvation, medical neglect and climate change. How many deaths each day are attributable to these causes?"

"Every time we shop with our conscience, every time we hold an investment decision in the light, every time we consider whether to use the car or travel in a more humane way, we are rediscovering the critical distance between our faith values and the values of the market and of secular society."

Microcredit in Action

by Brady Quirk-Garvan

In January I had the privilege of visiting with one of the micro-credit lenders that Natural Investments clients help to fund. We had a trip planned to Panama, so I decided to take the opportunity to meet with PROCAJA, the on-the-ground lending agency that chooses recipients for small loans funded through Envest Microcredit which some of our clients are invested in.

I met the PROCAJA team in the small town of Ocu. The people at the branch were very gracious as they got us up to speed on how they are structured and the types of clients they serve. As with most Envest-funded programs, loans are generally under $1000 and are targeted to individuals who are starting or growing a small business.

Also in keeping with other micro-credit programs, they're very successful in getting these loans repaid. Unlike many banks, they use a very hands-on approach. In addition to the standard visit with the person requesting the loan, to assess their current business and their plans, the recipients needs to get neighbors to vouch for them; this creates a natural community of support and accountability. After the loan is made, regular follow up visits track how things are going and identify ways to improve. All this ongoing support, including financial training if needed, leads to the failure rate being much lower then at most banks, which often provide no follow up or support.

After this overview at the branch office we went to visit four people who are currently using micro-credit loans to build financial stability.

First, we visited Artesanías Ocueñas, a woman-owned boutique specializing in traditional clothing, which is incredibly beautiful. Over the years the business has expanded, using the co-op model, and there are now seven women employed here making clothes! They've built up quite a book of business from repeat customers, which is always a good thing.

The second visit was with a young man who makes wooden furniture. He used his loan to buy a new saw, which increased the quality of his furniture, while greatly reducing the time it takes to make. His local customers are getting fantastic value, as it was clear to us that the quality was far better then most furniture we buy here in the U.S. He only begins a project when someone contracts with him for a piece, which means he doesn't have to pay for storage or have leftover inventory sitting around. A very efficiently run business!

Our third stop was with a small farmer who used his loan to buy an old tractor so he can expand his crop production; he's currently hard at work prepping it for next season. We were very impressed by the large crop of quite gigantic ñamés that was ready for sale. He also has pigs and chickens on his land to diversify his income stream.

The fourth visit was to an individual who grows yucca on land he leases. However, the loan he received was used to buy a school bus. In between his farming responsibilities, this entrepreneur drives people to the university about forty five minutes away to supplement his family's income. I particularly enjoyed this visit because not only was he was able to grow a side business to support his family but he was also making it easier for people in the village to access higher educational opportunities. That sounds like a win-win to me!

It is remarkable to see how much improvement can happen from these relatively small loans. The bulk of the loans are under $1,000 and are transformative for the individuals who get them. We're proud to work with Envest on projects like this and thrilled we can help our clients receive such a hearty social return in addition to the modest but very fair financial returns that these loans provide. Using some of your conservative asset allocation in these ways—rather than in CDs, Treasury Bonds, or other "safe" holdings—is among the most rewarding aspects of a values-based approach to investing.

Solid Market Fundamentals Trump Unstable President

by Scott Secrest

As the first quarter drew to a close, most stock markets had moved higher while bonds overall recovered from a poor prior quarter and finished up as well. Over the quarter the stocks of large U.S. companies rose by 6.1%, U.S. small companies finished higher by 2.5%, foreign stocks were up 7.2% and bonds, broadly measured, rose by 0.7%.

Both the financial and general press were dominated by news out of Washington D.C. as the new President's term got underway. While action in the capitol does affect the broader economy, the economic and business earnings outlook will normally have more impact on stock market results. Presidents have long received too much credit—or blame—for economic conditions on their watch. Still, it is understandable why the markets and media are fixated on Washington. The news never seems to stop and it's increasingly wacky. It feels like rubbernecking on the highway as we pass an accident; it's hard to look away.

This is a continuation of what was already happening during the second term of the Obama administration.

However, the long-term movement of stock prices tends to be more influenced by interest rates and business earnings. As the stock market has continued to rise since the election, some economists now believe that the rally is more about positive economic data that supports the picture of a normalizing U.S. economy. This is a continuation of what was already happening during the second term of the Obama administration.

Speaking of interest rates, the Federal Reserve Board (the Fed) did in fact raise interest rates in mid-March, for the second time in three months. Interest rates were cut dramatically during the financial crisis in an effort to stimulate the economy, and have been well below normal ever since. So, rising rates are seen as a needed return to economic normalcy. The Fed will attempt to keep rates from rising too rapidly, which could slow the economy or even tip it into a recession.

The stock market rally has continued mostly unabated since the bottom back in March of 2009. Justifying higher market values will require solid economic results going forward. If reported company earnings remain strong and the Fed does not raise rates too aggressively, then the pace of the rally may slow, but the direction could still be higher. We should note that the market slumps in 2015 and early 2016 were triggered not by domestic events, but by concerns of a slowdown in China. Unexpected global disruptions are always lurking around the corner with potentially damaging effects.

Also in March, the President signed an executive order to begin rolling back the Obama Clean Power Plan, the former President's signature climate change policy. Among other things, the order rescinds a ban on new coal leases on federal lands. While the action may give a reprieve to some coal-fired plants facing closure, large utilities say they will continue long-term investments to generate more power from gas, wind, and solar, policies which are being driven by economic as well as regulatory forces. The White House itself said that the order was part of Trump's promise to restore the coal sector, but acknowledged that merely rescinding the regulations wouldn't bring jobs back.

Finally, while the Fed is primarily charged with maintaining full employment and keeping inflation at bay, Fed Chair Janet Yellen will at times comment on a variety of economy-related topics. In a recent Fed study on the well being of ordinary Americans she said, "Considerable evidence shows that growing up poor makes it harder to succeed as an adult." While this may seem like common sense, partisan economists and others have maintained that American society is in fact a level playing field and that "personal responsibility" is the antidote for any sort of hardship one may have experienced during childhood.

While the study has not been released yet, the Chair gave a glimpse of the findings saying that adults who grew up worrying about food, an unstable family, or personal safety were less likely to be employed, have stable income or be able to pay monthly bills, as compared to adults who had better circumstances growing up. Yellen used the findings to underscore the importance of good education in low-income areas as well as job training and skills development. "Ensuring that all of our kids have strong foundations will help build a similarly strong foundation for the U.S. economy," Yellen said. The study is due out later this year.

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