NATURAL INVESTMENT news

WINTER 2007 HAL BRILL CHRISTOPHER PECK MICHAEL KRAMER JACK BRILL SCOTT SECREST WWW.NATURALINVESTING.COM

Hal Brill's VIEW FROM PAONIA

Bill and Melinda Gates seem like great folks. They are striving to use their vast wealth and talent to do good. Indeed, with assets of $32 billion (and growing since Warren Buffet hooked up with them), the world's largest foundation is tackling the world's greatest challenges. But an article in the *LA Times* pointed out a blind spot in their strategy, a flaw that is obvious to any of our readers.

The article, "Dark Cloud over the good works of Gates Foundation", points out starkly how *the investments* of the Gates Foundation are actually sabotaging the good deeds of their programs. Take global health, the foundations largest area for grants. The article begins with the story of an African child who has been immunized against polio (thanks to the Gates Foundation) but is suffering from acute respiratory illness. It's cause? The belching flares of oil plants on the Niger Delta. And guess who owns stocks in the oil company that owns them? Yep, Gates is a major shareholder.

When this story broke, Michael Kramer wrote to the foundation's investment officer to offer our services. We'd be happy to help them identify their social priorities and use the great power of their portfolio to bring about a healthier world. This would not cause them to sacrifice financial return. But their response was that it's "too complex". Follow-up articles indicate that the foundation does not consider it productive to use their resources to analyze their investment policies. Behind the scenes, I'm sure there are some interesting conversations taking place. According to *The Economist*, "the bad press of the past few weeks may mark a shift for the foundation, into an era when public opinion no longer takes for granted that giving alone is virtuous."

It would be great if the Gates' would take some time to really examine their deepest values and ask themselves if it's possible that joining socially responsible investors as active shareholders would advance their cause. But if they're not ready for this step then hopefully more attention to the impact of their investments by the press and public will coax them to adopt a more progressive, activist approach to the serious social and environmental problems that we all want to see solved.

Michael Kramer's

MAKING A DIFFERENCE

This edition of our newsletter marks a change in the title of this column. "Live Aloha" was meaningful to those of us here in Hawai`i –aloha being a way of life based on deep respect for people, all species and our surroundings and a love for all the connections in our lives. Given my role within NIS as Director of Social Research, "Making a Difference" seems to better convey the purpose of this work and the nature of these articles. This column will address the social impact of your investment dollars so you can see how our collective assets are making capitalism more compassionate and ecologically wise.

continued on page 2

Christopher Peck's

HOLISTIC SOLUTIONS

PAST THE TIPPING POINT: SRI IN THE ROCKIES 2006

In October, 2006 the NIS crew made their way to the Broadmoor Hotel in Colorado Springs, Colorado, for the 17th Annual SRI in the Rockies Conference. *The* conference about socially responsible investing, it's a grand time of networking, new friends and old, inspirational speakers, product releases, and fun times at altitude. The main take-away theme for me was "Past the Tipping Point." For both global climate change and the solutions to it, we are not nearing tipping points, we are past them and hurling forward. Anxiety and excitement are mixed and fueling our

continued on page 4

INTERNATIONAL SRI CRITERIA

International investing is an integral part of Natural Investing. But which countries and foreign-owned companies make suitable investments? Over 20 years ago, SRI investors helped bring down the *apartheid* regime in South Africa by divesting in American companies conducting business there and asking them to cease operations there. This legacy is carried on today by seeking to avoid investment in countries which are deemed repressive or otherwise in violation of international human rights and environment standards.

There are relatively few SRI funds that focus on buying stocks outside the U.S. These include Calvert World Values and Portfolio 21. In 2005, Domini launched their European fund (see *Natural Investment News*, Summer 2006) and has recently opened a new PacAsia fund.

We are still waiting for someone to offer the first SRI international <u>bond</u> fund. Perhaps this is because of the difficulty of deciding which countries would be acceptable to SRI investors. I've been researching this area and found that there is no consensus on what the criteria should be for excluding or including certain countries.

There are many ways to gather information about specific countries. The U.S. State Department maintains a list of politically unstable countries such as Nigeria, Indonesia, Iran, Israel, Lebanon, Algeria, Haiti, and Saudi Arabia.

The Global Horizon Fund, a private equity fund of local funds, rates 70 developing countries. While it is not an SRI fund *per se*, it does include criteria such as political rights, protection of sensitive lands, carbon emissions, access to clean water, and environmental protocols signed. Atop its list of preferred countries are South Korea, Israel, Slovenia, Estonia, Taiwan, Hungary, Latvia, and Uruguay, while at the bottom are Zimbabwe, Kenya, Tanzania, Uganda, Pakistan, Papua New Guinea, Ghana, Senegal, and Bangladesh.

For environmental analysis, the most comprehensive listing is called the Environmental Performance Index. Factors such as Kyoto and Montreal treaty ratification, biodiversity and habitat preservation, deforestation and other natural resource usage rates, water and air quality, carbon emissions, waste, eco-efficiency, marine catch, and energy sources are all considered in the rating and ranking of 133 countries.

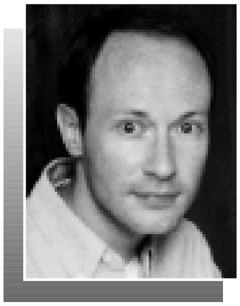
Environmentally, countries ranked highest are New Zealand, Sweden and Finland. In general, Scandinavia and Western Europe score the best, though Australia, Taiwan, Slovakia, Colombia, Canada and Malaysia are also considered top-quartile performers among the 133 countries assessed. The United States, incidentally, placed 28th. At the bottom are many under-resourced African nations such as Mali, Ethiopia, Angola, Chad, and Niger, though Pakistan, India, Mongolia, Haiti, and Cambodia also rate in the lowest quartile. Investors can examine country profiles in order to ascertain whether or not they wish to support or avoid a particular country with their investments.

Social and governance issues are broader still, and might address political rights, education, health, civil liberties, labor and legal standards, gender rights, military expenditures, religious freedom, and human development standards. Some research can be gleaned from human rights organizations such as Amnesty International, Human Rights Watch, and the Carter Center. Problems in Guatemala, Uganda, Sudan, Burma, China, Russia, Mauritania, Congo, Peru, Cuba, and Bolivia are being addressed through a variety of initiatives.

Independent research firms such as Verité are very helpful. Verité has conducted 1500 factory evaluations in 60 countries in order to help gather facts regarding country-level compliance with internationally accepted labor standards. Verité has since narrowed this analysis to the 27 major countries in which American companies have significant economic production activities. Of the 27 countries ranked, Hungary, Poland, Czech Republic, Israel, Argentina, Chile, Taiwan, South Africa, Korea, and Peru were the top 10 nations, while at the bottom were Pakistan, India, Malaysia, China, Indonesia, Morocco, Colombia, Egypt, Thailand, and Brazil. Of course, these rankings are not static, as countries shift policies and practices continually. For example, Colombia has now ratified a child labor ILO convention, Morocco has less government interference in unions in recent years, and Taiwan now has a sexual assault reporting system.

Investors therefore have to piece these various reports together to make a determination as to which countries are off limits and which ones are acceptable for investment. CalPERS, the pension system for California public employees, does just that, and creates a list of acceptable countries. They look at the government issues of labor standards, political stability, and transparency as reported by Verité, but then also add market liquidity, capital market openness, and a transaction cost assessment to make a final ranking of permissible equity markets for investments. In the final tabulations, published last spring, Hungary, Poland, Chile, Czech Republic, Taiwan, South Korea, Israel, South Africa, Brazil, and Mexico round out the top 10, while Venezuela, China, Colombia, Sri Lanka, Egypt, Pakistan, Russia, Morocco, and Malaysia received the lowest scores.

As you can see, SRI research for international investing is still evolving. NIS monitors a wide range of sources to assure that our clients have access to investment opportunities that promote social and environmental progress throughout the world.



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

By Scott Secrest
NIS Director of Investment Research

Investors were pleased with stock market returns in 2006. The major indexes posted impressive gains for the year, with the S&P 500 adding 15.8 percent, and the socially responsible Domini 400 Index up 13.3 percent, the best showing since 2003. Even better for diversified investors, international stocks rose 26.3 percent as measured by the MSCI index of foreign stocks. Small company stocks were not to be ignored either with an 18.4 percent return for the Russell 2000 Small Cap Index.

Investors moved money into stocks because of a sturdy economy, generally good consumer sentiment and spending, earnings growth for companies, and contained inflation.

More conservative bond investments returned 4.3 percent according to the Lehman Aggregate Bond Index. Natural Investors have portfolios which are specifically balanced between stocks and bonds to create the appropriate risk/return characteristics to their investment portfolios.

For much of the second half of 2006, the bond market was in an "inverted yield curve" situation. This simply means that the interest rates for longer term bonds were below rates for shorter term bonds. Ordinarily it would be the opposite. Some believe that this condition generally precedes an economic recession.

2006 also saw a retreat in oil prices. Crude oil reached all-time highs in the summer when it surpassed $78 a barrel. But oil prices soon retreated to 2005 levels with the welcomed avoidance of another devastating hurricane season. While this may have been welcome news for Hummer drivers and others, it was considered a negative for alternative energy and clean tech companies. The Wilderhill Clean Energy Index had a strong run up from January through May. The first quarter return was a red-hot 31 percent. However with the decline in oil prices, the broad alternative energy sector then turned sharply downward and lost most of these gains as the year wore on. The index posted a modest gain for the year of 5 percent.

Entering 2007, we see a varied picture for the stock market. We expect slowing economic growth but a reasonable chance of avoiding a recession. Economic "soft landings" can be accompanied by strong stock markets. The housing sector could rain on the stock market picnic should it experience a dramatic slow down. This sector influences many others. The Federal Reserve is likely to be restrained with interest rate cuts. Many pundits believe the Fed may wait until the second half before cutting interest rates, if at all. As always, attempting to anticipate the timing and direction of interest rates is an adventure.

Three's a charm when it comes to the Presidential election cycle. The third year of the US Presidential cycle has historically been a reliable leading indicator the best year in the stock market of the four year term. However, our embattled leader is in an unusual situation with war time and public opinion problems. So, it's not clear whether this pattern will hold true this time.

Benchmarks: Total Returns as of 12.31.06

	4th Quarter	1 Year	3 Year
S&P 500 Index	**6.7%**	**15.8%**	**10.4%**
Domini Social Index	**6.3%**	**13.3%**	**8.8%**
Russell 2000 - Small Cap	**8.9%**	**18.4%**	**13.6%**
Lehman Aggregate Bond	**1.2%**	**4.3%**	**3.7%**
MSCI (International)	**10.4%**	**26.3%**	**19.9%**

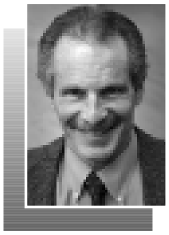
America's well-documented consumption of goods and services, low savings rate, and our worsening trade imbalances have had and may be expected to continue to create weakness in our U.S. dollar. Securities denominated in foreign currencies, such as foreign stocks and bonds may be the best protection against a falling dollar for investors.

In spite of the war, investors have seen quite a bit of global economic stability, but it hides significant underlying issues that are changing the world in vast ways. These include growing labor productivity globally ("cheap labor" and the disruptions that brings), a swell in commodity prices, and a trade and financial interdependence between emerging and developed nations (with a corresponding movement of capital to developed nations). These changes may well bring global volatility in the future.

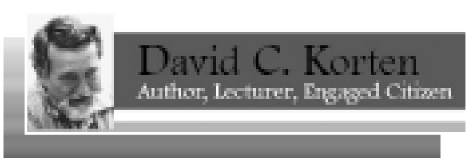
Although the market appears to have a positive outlook for 2007, we are likely to see more modest returns than in 2006, and they may come with greater volatility. We believe volatility gives Natural Investors good opportunities to rebalance, and it should reinforce the benefits of a longer-term perspective.

Performance data represents past performance and does not guarantee future results. Investing involves risk, including loss of principal. Passive benchmarks are unmanaged groups of securities and are not directly available for investment.

continuing commitment to invest and fund the transition to a sustainable world. Here are some of the highlights.



Paul Epstein is a Harvard Medical School professor in the School for Health and the Global Environment, and is a faculty colleague with famous biologist E.O. Wilson and another colleague interestingly named Daniel Goodenough (see Makower's talk below). He spoke on climate instability and the risks associated with it. Epstein made the argument convincingly that climate is not about to shift, it is shifting, quickly, and he outlined the health problems associated with warming of the planet: increased range for infectious diseases, extreme heat and flooding, and the loss of productive agriculture. His recommendations were strongly slanted towards changing government incentives to move us away from carbon-based fuels, and moving insurance companies deeper into sustainability. (His study was funded by Swiss RE, one of the largest reinsurance companies in the world.) For more on Paul Epstein: *http://chge.med.harvard.edu/about/faculty/epstein.html.*



The next person who underlined how we're urgently past due for transformative change was David Korten. A Stanford MBA, author and lecturer, and one of the founders of BALLE (Business Alliance for Local Living Economies) and the International Forum on Globalization, he spoke mainly from his latest book: *The Great Turning: From Empire to Earth Community*. He gave a powerful and provocative speech, which many of us found heartening and inspiring. Some in the audience found him too extreme and anti-business, but his talk generated considerable conversation and thoughtful dialogue. As members of BALLE, and provocateurs of moving SRI forward into more progressive territory, we at NIS wanted more of Korten, and are working to bring ideas he presented into a more concrete form. For more on David: *www.davidkorten.org.*

Turning the tide into positivity, Patricia Aburdene, author with John Naisbitt of *Megatrends 2000*, and most recently of *Megatrends 2010: The Rise of Conscious Capitalism*, spoke about the social, economic and spiritual trends influencing business today. Her latest book emphasizes the importance of natural investing and mentions our very own Hal Brill, so of course we're supportive of her message. For more on Patricia: *www.patriciaaburdene.com.*

By far the most effective presenter, and perhaps one of the best Powerpoint "artists" I've ever seen, Joel Makower dazzled with a talk entitled: "How Good is Good Enough? When Big Corporations "Go Green." Joel asked a provocative question, for which there is no easy answer. Even if every large corporation instituted "green" programs and business lines, reducing their energy use, say, 50% across the board, will that reduce the amount of total carbon dioxide going into the atmosphere enough to make a difference? Or more pressingly, will it be fast enough or in time? As it turns out, sustainable business change has also passed a tipping point, though we can only hope it will be in time. Joel is a powerful ally who is helping guide the way. For more on him and his considerable body of very good work: *www.greenbiz.com* and his blog: *www.makower.com.*

There were also two break-out sessions that were particularly powerful. One was called Private Equities as an Emerging Asset Class, which is finance-speak for how small investors can invest in and profit from start-up companies. The consensus of the panel was that this change is almost here, though not quite ready yet. Most of the action is happening in the world of renewable energy, with dozens of IPOs, new start-ups, and clean tech ventures happening on a monthly basis. And the speed of the transformation gives hope. If you're feeling down about the state of the world, perhaps after reading more about the first two speakers I profiled above, the following two websites provide considerable cheer, and a sense that we might be able to do all of this in time. Both are excellent reads and highly recommended: Clean Edge website on the latest in renewable energy: *www.cleanedge.com*, and the Progressive Investor, primarily focused on sustainable business and renewable energy: *www.sustainablebusiness.com/progressiveinvestor.*

Joe Keefe from Pax World Funds gave a rousing talk during his company's sponsored presentation. Usually the sponsored presentations are rather bland stand up commercials about a fund, with the opportunity to ask questions of the managers. But Joe Keefe, President of Pax World, took a different turn. A former head of the Democratic Party in New Hampshire and one-time candidate for political office, he gave a stirring stump speech on the need for SRI to get over being shy about how its deep blue values are key to adding value for shareholders. His well-reasoned and passionate presentation brought many of us to our feet. If you're interested, email me and I'll fax you a copy. Look for more on this from us in the near future.

Let me know what questions you have about the conference, and any additional links or insights you'd like to know about.

Mutual Fund Profile: Calvert Mid Cap Value Fund

By Scott Secrest

In this issue, we are reviewing the Calvert Mid Cap Value Fund. This fund has been awarded the NIS Social Rating(SM) highest rating of five hearts because of their comprehensive social and environmental screening, as well as shareholder activism and community investment. This is a stock mutual fund, and as the name suggests, it invests in the stocks of "mid sized" companies. These companies are not the mega conglomerates, nor are they the smallest of publicly traded companies – they're right in between.

Historically, the stocks of large, mid sized, and small companies have not always moved in tandem. Investors can be rewarded over time by investing their stock money across all three of these classes. This kind of diversification is the keystone of a solid investment plan.

The fund's lead manager is Eric T. McKissack, who is a 20 year veteran of the investment industry, a M.I.T. graduate, and holds a MBA from the University of California at Berkeley. Some readers may be familiar with the Ariel socially responsible mutual fund company. Mr. McKissack served as Vice Chairman and Co-Chief Investment Officer there for more than 15 years. His responsibilities included management of the Ariel Appreciation Fund. These are high-powered credentials!

This fund provided investors with a tidy 13.8%* return in 2006, making it very competitive within its group. The fund has recently been favoring stocks of financial and business services companies which has helped to boost its performance. However, Calvert always keeps an eye to companies that provide socially or environmentally helpful products or services.

Mr. McKissack uses what is known as a "bottom-up" stock selection process. This means that he and his team will search for, and invest in well-managed, promising companies. By contrast, some managers look at broader, high-level economic trends, then move down to the industries, then the companies that might be expected to benefit from those trends. This is knows as a "top-down" approach. Given the good year stocks had in 2006, the bottom-up style may fare better in 2007.

The fund also generally employs a "value" oriented style. This means that they seek investments in companies

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INVESTMENTS THAT MAKE A DIFFERENCE

which hold undiscovered value. As Wall Street begins to see the real value of these companies, the stock price may appreciate as more investors buy the stocks.

We have confidence in the Calvert Mid Cap Value fund and believe that it fulfills an important role in the diversification and growth potential of many Natural Investors' portfolios.

** Past mutual fund performance is no guarantee of future results. Please speak with your NIS advisor to see whether this investment is appropriate for*

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GUEST COMMENTARY

Taking It To The Streets - The Surge Of Yes

by Meg O'Shaughnessy

(Ed. Note: As we were finishing this edition of *Natural Investment News,* thousands of Americans were taking to the streets in Washington D.C. and around the nation to protest the war in Iraq. This article was written for that occasion and was published on the progressive website *CommonDreams.org* on Jan. 27, 2007. Meg O'Shaughnessy *(peacespeak@yahoo.com)* is a dear friend as well as a client of NIS. She works with young learners in San Francisco and is a student of Non-Violent Communication. *www.cnvc.org. - H.B.)*

What truth moves behind, beneath our gathering "No"? Our no to escalation, no to Mr. Bush's denial and duplicity? The surge of "YES!" This yes speaks to our shared humanity, cries yes to an evolution, a revolution, a transformation of our vision beyond the illusion of our separateness, beyond the inherent lie in the numbing repetition of the label "enemy" - beyond war.

The work of Marshall Rosenberg, a language called Non Violent Communication (NVC), is premised upon the understanding that the needs of the individual are linked to the needs of the collective, and points to the view that needs are, in fact, universal, shared by the human family. NVC teaches that behind each "no" lives a "yes" to meeting another need, more central, more "alive" in the moment.

What is alive, most alive in this moment of planet time is the reality, the pre-eminent actuality of the crisis of human-caused climate change and its attendant rippling effects upon security, species diversity and survival. Rumbling beneath our no to escalation of the criminal obscenity that is the US-created catastrophe in Iraq, is a yes that can be heard erupting around the world, from each one of us at once. Together we are recognizing, through floods, hurricanes and record temperatures, that something is "up" and upside down, and we are waking up.

Our yes affirms a world model that invites dialogue and co-operation, that rallies our combined energies toward the global challenge, commonly held. When we say yes, we recognize the tragedy and failure and waste of war. Our yes is to taking off the blinders and acknowledging that war gobbles wantonly at our shared resources, poisons our planet home, and spends, expends, our treasure - the intelligence, will, creativity and life blood of young American men and women and of all those they are consigned to kill and destroy "on the other side of the world."
(W - January 10, 2007.)

"Yes" attests to our readiness to surrender the tortuous delusion that has brought us to this precipice. As Albert Einstein expressed, it is "our experience of ourselves as something separate from the rest [that is] - a kind of optical illusion of consciousness. This delusion is a kind of prison for us, restricting us to our personal desires and affection for a few persons nearest to us. Our task must be to free ourselves from this prison by widening the circle of understanding and compassion to embrace all living creatures and the whole of nature in its beauty."

As we take to the streets in Washington DC, across the country and around the world this weekend, we intone yes to a world where we recognize our every effort as an attempt to meet our needs, and each his or her needs. We sing yes to our commitment to awaken to the essential nature of our humanity, to see ourselves in each other and to live our lives as members of the human family, and of the earth community. The chorus is growing. Yes to one world, where the needs of the many are met.

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