NATURAL INVESTMENT *news*

WINTER 2008 ISSUE #55 HAL BRILL CHRISTOPHER PECK MICHAEL KRAMER JACK BRILL SCOTT SECREST

Hal Brill's VIEW FROM PAONIA

Out here in the shadow of the Rocky Mountains there's been a lot of talk about the weather. We had a dry, warm "Indian Summer" that was pleasant but scary as it lasted through November, then POW! Snowfall records fell while skiers scrambled to figure out how many sick days they could take off from work. I love living in a place that constantly shakes me out of complacency. Change happens, and it gives no warning.

If you watched the financial news in January you know where I'm heading. For several years the stock market has been relatively tranquil, churning out positive returns despite untold traumas in the world. All of sudden the storm hits and investors scramble to shutter the windows. The parallels between nature and the economy are many; "chaos theory" was invented to try to fathom their unpredictability in the short term. But in the long term, spring always follows winter, and economic cycles run their course. 2007 was ridiculously volatile, and anyone who thought they could "time" the market to buy and sell must be eating humble pie.

Here at Natural Investments, we watch the storms but keep focused on long-term patterns that may give our clients an edge while helping make a better world. Here's one example you can use at your next potluck: Did you know that companies who treat their workers better have outperformed those that don't? Companies on *Fortune's* magazine's annual list of the "100 Best Companies to Work for in America" between 1998 and 2005 returned 14% per year, compared to 6% a year for the overall market. That's a big difference! This study won the prize for cutting-edge research at our *SRI in the Rockies* conference last November. The author, a jovial finance professor from Wharton, explained that most people think of money as a static, finite material. If a company gives more to its workers then it must make less profit because the pie is only so big, right? Wrong. It turns out that happy, loyal workers make the pie bigger, maybe because they are more likely to come up with innovations that move the company forward. I just love facts like that, steady truths that can be counted on no matter which way the wind is blowing.

Michael Kramer's MAKING A DIFFERENCE

NATURAL INVESTMENTS BECOMES A FOUNDING B CORPORATION

If you've ever owned a business, you've likely heard of various types of corporate structures: the S-Corp, the C-Corp, and the LLC are the most common types sanctioned by the federal government. But imagine a new possibility, a corporate structure that harnesses the power of private enterprise to create public benefit. Well, imagine no longer, as this new type of entity – the B Corporation– launched in 2007. Natural Investments LLC (NI) is one of its 82 Founding Members.

The purpose of a B-Corp, ('b' is for benefit), is to create benefits for all stakeholders, not just the owners. As you likely

continued on page 2

Christopher Peck's HOLISTIC SOLUTIONS

PILOT EPISODE: FINANCIAL MYTHBUSTER!

As classic snobs, we don't have a TV at our house. Well, we do have a TV, but we don't "watch TV," it's only for movies. Well, we do watch some TV shows on DVD, but, you know what I mean. So whenever I'm in a hotel room, my hand invariably reaches for the remote, I can't resist. I recently saw an amazing show called MythBusters, have you seen this? The two hosts are cool-looking science geeks who set out to validate urban myths or legends, things like if you would kill someone if you dropped a penny on them from the top of the Empire State Building. They build complex contraptions to run experiments, there are frequent

continued on page 4

know, there has been tension between profit-making and the social and environmental consequences of business since the Industrial Revolution began. Laws governing corporate charters give corporations the legal right to profit at the expense of employees and/or the environment. This protection has caused many Americans to question the purpose of such entities, as they appear to operate in direct conflict with the common good of society in favor of the select financial interests of shareholders.

Founded by Jay Coen Gilbert, who launched and eventually sold a successful urban shoe and apparel company called *And 1*, the B Corporation supports the notion that businesses should operate as if people and place matter. Through their products and services, B-Corps aspire to do no harm while benefiting the common good.

To qualify as a Founding B Corporation, NI completed an extensive survey that detailed every aspect of our company: our policies regarding governance, employees, and the community; our environmental footprint; our engagement in community service and providing opportunity to previously excluded populations; our charitable giving; and our methods of service delivery and the social impact of our services. We easily qualified, and have even included B-Corp principles in our Operating Agreement to formalize these concepts:
…"(each managing partner shall) give due consideration to the following factors, including, but not limited to, the long-term prospects and interests of the Company and its members, and the social, economic, legal, or other effects of any action on the current and retired employees, the suppliers and customers of the Company or its subsidiaries, and the communities and society in which the Company or its subsidiaries operate, (collectively, with the members, the "Stakeholders"), together with the short-term, as well as long-term, interests of its members and the effect of the Company's operations (and its subsidiaries' operations) on the environment and the economy of the state, the region and the nation."

As such, we are proud to be recognized as a Founding B Corporation. Beginning in 2009, a percentage of our gross revenues will be tithed to the B Corporation organization in order to assist the process of obtaining official IRS recognition of the B Corporation status. We intend to play a leadership role in promoting the importance of social and environmental factors in business and helping companies to embrace these new corporate standards voluntarily.

NEW SRI FUNDS IN 2007

Michael Kramer and Hal Brill

The expansion of SRI accelerated during 2007. Numerous new funds and index offerings were introduced from both mainstay SRI mutual fund firms and traditional financial institutions. They include:

• Pax World launched the Pax World Value Fund of large companies, and Pax purchased Women's Equity and renamed it Pax World Women's Equity Fund.

• Calvert released an International Opportunities Fund that invests globally in small-to-mid sized companies, and an exciting Global Alternative Energy Fund that focuses on renewable energy companies from around the world.

• Domini introduced its PacAsia Social Equity Fund and the EuroPacific Social Equity Fund, providing opportunities for SRI investors to invest in Asia

• Winslow, based on the success of its highly successful small cap offering, the Green Growth Fund, created its first mid-cap fund, the Green Solutions Fund.

• MMA Praxis released Small Cap and Growth Index funds.

• KLD Research & Analytics launched the KLD Global Sustainability Index and three area specific sub-indexes.

We continue to see the conventional investment industry dip their toes further into the SRI waters. Gabelli launched its first SRI Fund and Fred Alger put out the Spectra Green fund, while Deutsche Bank, F&C, HSBC, and Schroders all launched climate funds last year. The Merrill Lynch Energy Efficiency Index , S&P Global Clean Energy Index, S&P Global Water Index, and S&P Global Infrastructure Index were also new entries in 2007.

The credibility of the SRI approach got a boost with the release of the United Nations' report, "Demystifying Responsible Investment Performance". It summarized the results of 20 academic and 10 broker studies on the integration of environmental, social, and governance factors into financial performance. In the report, 27 of the 30 studies either showed a positive or neutral correlation between environmental, social, and governance factors and financial return, perhaps proving once and for all that such criteria are material issues to company performance and deserve attention from all investors rather than only SRI investors.

What's Up on Wall Street?

By Scott Secrest
AAMS®
NI Director of Investment Research

Investors entered the fourth quarter of 2007 on fairly sound footing. U.S. stocks were up over the preceding 12 months by better than 16% as measured by the S&P 500. The Federal Reserve Board continued to cut interest rates. Stock markets were rising the world over.

However, by the end of October, the mood on Wall Street had changed notably. More details began surfacing about massive financial losses suffered by some of Wall Street's biggest corporate names due to their investments in the so-called "sub-prime" mortgage market. Worries over a slowing housing sector became the focus and how this slow down might affect the overall economy. And, mutterings of a U.S. or even global economic recession became louder.

The holiday shopping frenzy started with considerable strength. Retailers and others rely heavily on December profits to carry them through leaner times of the year. But, the strong beginning did not carry through. Numerous large retailers warned that their sales would see no growth over the prior year. Oil prices near $100 a barrel were seen as one of the factors curbing holiday shopping. Consumer confidence in the economy continued to slip.

Consumer confidence is an important element. Less confident consumers spend less money and this in turn reduces the revenues earned by businesses. We believe that sustainable business practices will help to insulate more visionary companies from a variety of economic threats. Still less consumer spending means leaner profits for nearly all businesses - green or not.

The key to consumer confidence is in the health of the labor market. The labor market indicators have been mixed - some suggesting strength, others showing weakness. A softening labor market could accelerate deterioration in consumer confidence, which may create a self-fulfilling prophesy - economic recession.

A recession is defined as a significant decline in economic activity. Technically, it means two consecutive quarters of negative economic growth as measured by our gross domestic product (GDP) which is the value of all goods and services produced in the U.S. When recessions have occurred historically, they have run between 6 and 18 months in duration. Recessions are accompanied by a variety of financial discomforts for many. This could be in form of a lost job, a foreclosed home, or related troubles.

According to a recent Bloomberg poll, 71% of Americans expect a recession. The Congressional Budget Office states that the risk of a recession is "elevated." However, recessions are usually a surprise - even to economists. The coming recession - if there is one - will be perhaps the most anticipated ever. It is possible that early reaction to the threat of recession, such as reducing inventories, scaling back hiring, etc., could help to control the severity of a recession.

Investments in green stock mutual funds are a part of nearly every Natural Investor's portfolio. The prospects for attractive returns in stocks in 2008 will depend on companies being able to resume growth in their earnings. The earnings of U.S. companies declined throughout the second half of 2007. While there are projections of a return to growth in earnings in early 2008, this is not assured. And, little or no earnings growth can mean the same for stock value growth.

The value of the U.S. dollar rebounded near year-end from its record lows in November and earlier in December. But, there is still potential to see the dollar decline.

BENCHMARKS: Total Returns as of 12.31.07

	4th Quarter	1 Year	3 Year
S&P 500 Index	**-3.4%**	**5.5%**	**8.6%**
Domini Social Index	**-3.2%**	**3.7%**	**6.6%**
Russell 2000 - Small Cap	**-4.6%**	**-1.6%**	**6.8%**
Lehman Aggregate Bond	**3.0%**	**7.0%**	**4.6%**
MSCI (International)	**-1.7%**	**11.2%**	**16.8%**

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.

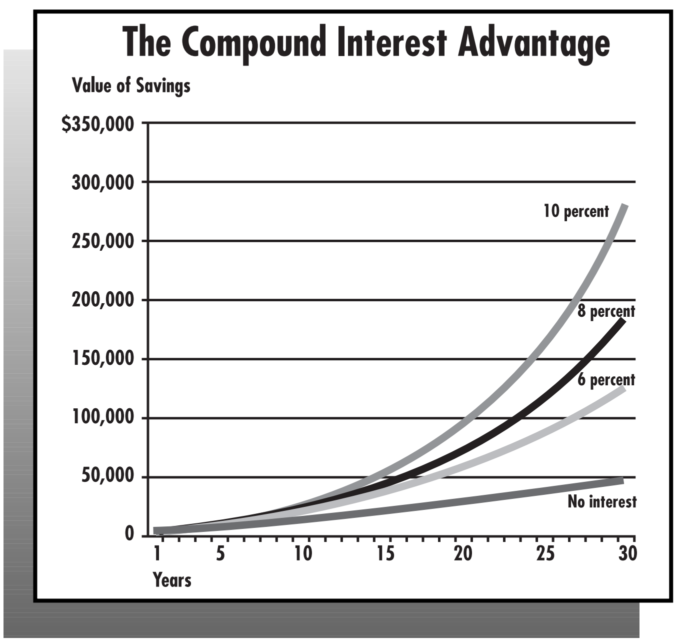
On the bright side, Natural Investors have seen strong performance over the last quarter in their international bond investments due to the appreciation of the foreign currencies in which these bonds are denominated.

While we expect strong foreign trade - due to the weak U.S. dollar - to add to earnings growth for U.S. companies, we must acknowledge that there are strong headwinds and 2008 stock market return expectations should reflect this.

Natural Investment portfolios have been designed for diversified and balanced portfolio characteristics. While the markets are very unpredictable in the short term, they are predictable in the long term. So, it's important to remain focused on your long term goals and remain confident during challenging market environments.

explosions and fake gore, and the two guys are pretty funny. As I'm sitting there watching this episode with falling pennies, I'm thinking, "yes, there's a classic myth, pennies from heaven …" and it got me thinking about all of the many investment and financial planning myths, and maybe I could have a cool show where I busted them. And I wouldn't have to resort to mad yelling, and maybe I could have some flashy graphs and charts, and I could bring on Nobel Laureates in Economics, and, and …

Since my agent hasn't heard back yet from their agent (I'm assured we'll do lunch soon), I thought I'd pilot my first Financial MythBuster right here in *Natural Investment News*. As an avid consumer of financial planning books, academic and popular, I'm constantly tripping over financial myths. The first one I want to take a stab at has to do with building wealth, we'll call it: Slow and Steady Wins the Race. The argument usually runs like this: starting in your 20's, save a few thousand dollars every year in your IRA, and by the time you retire, you'll have a million bucks.



Let's run some tests and see if we can validate this common notion. Here's the myth in numbers: put away $3000 every year for 40 years, and assuming

you get a 9% return, you'll have a million dollars. (Quick aside, it's amazing how often "a million dollars" is used in financial projections. Why a million dollars? Is that how much you really need? Is it enough? Too much? For what purpose? Those questions are never asked of course, but "a million dollars" is a concept we're culturally attached to, and it certainly helps sell books. OK, back to the show.) When I run the numbers in my trusty finance spreadsheet (click click click, push go), indeed, with those assumptions, you do end up with a million dollars. First evaluation of the myth, it passes!

What's never mentioned in this scenario however is what your long-saved million dollars will do for you. What will it be worth in 40 years? What will you be able to do with that nest egg? If you assume that inflation will be around 3.5% (it's unlikely it'll be less than that), that sacred million dollars is equivalent to only $250,000, in today's dollars. Or, put in a relevant way for retirement savers, that million dollars could generate $50,000 a year forty years from now (assuming an investment generating 5% per year), but that is really only like having $12,500 a year, in today's dollars. Does anyone living in US of A right now think they could live on $12,500 a year??

(In my show, I'd now break to a short riff by one of my guest finance professors, for a quick explanation of the time value of money.) When we say things like "today's dollars," or "equivalent to only $250,000" what are we talking about? The time value of money is one of the core concepts of investing; lesson one in Financial Literacy 101. It assumes that inflation will continue to be with us (as it has been for more than 1,000 years), and does some basic finance math to figure out what future numbers mean in today's equivalent dollars. If you had a million dollars in 2048, what would that buy you? Not a house in California (estimated future median price, $4.6 million), though it would just buy an education at Stanford. Assuming inflation continues, everything (food, housing, fuel) will be more expensive in the future, and to buy an equivalent 'basket of goods' in the future will take more money.

In our retirement scenario, the million dollars in savings won't generate enough income to buy you much hydroponic food, hydrogen for your hovercraft, or even buy books for your grandkids at Stanford (estimated future cost, $20,000/year). Conclusion? Though you could save $3000 a year for 40 years and end up with a million dollars, it's not nearly enough. Myth? Busted!

The story gets worse if you're starting later, in your 40's or 50's, and don't have 40 years for compounding to work its magic. There are other factors that make it more difficult too, such as the erratic nature of returns (investments rarely return a consistent 9% a year, year after year, for 40 years), taxes (only going up), and discontinuities that alter the game (climate change, peak oil, decline and fall of the US, etc).

What do we do? Tune in next episode and I'll be premiering my other new show Financial Smarts for People Who Care, bringing creativity and deep thinking to common financial questions. Don't forget to thank our sponsor, Natural Investments LLC, where you can make money and make a difference.

In the news:

Natural Investing Highlights from 2007

From The Progressive Investor (www.sustainablebusiness.com) This monthly newsletter (available by paid subscription) is a great source of information about affirmative investments, especially in the field of renewable energy and "clean tech".

2007 was a watershed year for the environment. The fourth report from the Intergovernmental Panel on Climate Change (IPCC) confirmed and deepened the urgency to address climate change, coupled with Gore's movie, "An Inconvenient Truth." Along with graphic images showing the arctic ice retreating 30 years ahead of projections, the IPCC report warned we're nearing the tipping point of no return - a couple of years into a 10-year window to seriously address climate change. We also learned that reducing emissions by 20% or even 50% isn't enough – we face the huge challenge of constraining emissions by a daunting 80%. Along with steeply rising gas prices and the volatile Mid-East, we saw the perfect environment created for the world to embrace energy efficiency and clean energy.

Highlights of the year include:

• The EU approved a target to cut greenhouse gases 20% from 1990 levels by 2020. Six G8 nations agreed to voluntarily cut emissions by at least 50% by 2050.

• Germany signed laws to cut greenhouse gases by 40% by 2020, raising targets for renewable energy to 25-30% (up from 12%).

• Australia ratified the Kyoto Protocol.

• Inefficient incandescent light bulbs were banned in the EU, Australia, Ontario and the U.S.

• The U.S. Supreme Court ruled the EPA has the authority to regulate greenhouse gases.

• For the first time, a handful of states rejected construction of new coal plants.

• San Francisco banned plastic bags at supermarkets.

• New York City launched a multi-billion dollar sustainability plan, which has already resulted in all hybrid taxi fleet and clean bus fleet. The courageous plan is the first to propose congestion pricing.

• California passed the first law to reduce the carbon intensity of transportation fuels - 10% by 2020.

As you know, the very diluted Energy Bill recently passed, which omitted the national Renewable Portfolio Standard, and solar and wind incentives – the funding for which would have come by depriving oil companies of their subsidies. But the auto industry finally accepted the inevitable - they must produce more efficient vehicles. The Green Jobs Act of 2007 passed as part of the bill, authorizing $125 million for green job training programs across the country!

Corporations Add Their Voice

Many of the world's largest corporations formed the U.S. Climate Change Partnership to lobby the federal government to immediately enact mandatory national cap and trade legislation. Members include GE, DuPont, Duke Energy, Alcoa, BP America, Johnson & Johnson, Dow Chemical, ConocoPhillips, Deere & Company, General Motors, Shell and Siemens.

• Citigroup committed $50 billion over 10 years for investments and projects in low carbon technologies.

• NewsCorp, one of the word's largest media companies and led by ultraconservative Rupert Murdoch, announced it would be carbon neutral by 2010.

• IBM announced it would spend $1 billion to become more energy efficient across global operations.

• Dell is tripling its recycling of electronic products and supporting federal legislation to mandate electronics recycling.

• Google launched RE<C to develop renewable energy sources that will be cheaper than coal.

NATURAL INVESTMENTS, LLC.

International Adoption

By Scott Secrest

Our family became more diverse in December when my wife, Kate, and I traveled to Kazakhstan and adopted our baby girl, Pema. Pema is a Tibetan name which means "lotus" flower. Though we all came home with colds, we're well now, and Pema is adjusting to her new American life.

We came to our decision to adopt our child from Kazakhstan about a year ago at a socially responsible investment conference. We were introduced to another advisor who had adopted a son from Kazakhstan, and was preparing to adopt a second. She absolutely beamed as she showed us the numerous photos she carried of her son. We'd never seen a prouder mom.

Relatively few countries in the world allow foreign prospective parents to adopt children and take them from the country to live their lives abroad. Kazakhstan is fairly unique in that the waiting period for adopting an infant is shorter than other countries such as China, the number one origin of international adoptions for U.S. families. Kazakhstan is also noted for being relatively free of some of the problems associated with adoptions such as fetal alcohol syndrome and similar problems.

So, our decision was made! We then began the onerous process of compiling our "dossier." A dossier in this context is a long list of documentation about our health, the home we could provide, our financial circumstances, and on and on. Most of the documents required three levels of certification; notarization, authentication and apostille. Though it sometimes seemed that the day would never come, on a crisp September afternoon, we submitted our dossier to our adoption agency. The wheels were set in motion.

About a month later, we received a "referral" from our agency. This was a photo and very brief medical report on the baby girl who would one day be our daughter. The photo was low quality, probably taken with a cell phone. But, it didn't stop us from falling for her in a big way. We accepted our referral and our agency communicated to the authorities in Kazakhstan that Pema had a prospective family waiting for her in the U.S.

Thankfully our application and dossier were accepted by the Kazakh government and we were invited to the country to adopt our girl. Hasty travel arrangements were made and before we knew it, we were boarding a plane on the first leg of a long trip to Kazakhstan – 14 time zones away from California! The adventure of a lifetime had begun.

We were rushed to the "specialized baby house" on our arrival in Astana, Kazakhstan to submit our application in person for our adoption of Pema. There are always other foreign prospective adoptive parents interested in a healthy baby girl, so we needed to claim her quickly. It was on that morning, drowsy from many hours of travel, that we were introduced to Pema – the most beautiful baby we'd ever seen.

We visited with Pema daily over the next month, and grew closer to her each day. We made our official appearance in a Kazakh court and our application was formally approved. We brought our daughter home to our little Kazakh apartment on Christmas day. With a few extra days in Almaty, Kazakhstan processing immigration paperwork at the U.S. Consulate, we were on our way home with Pema.

It's hard to believe that these events have all unfolded over the last year. And as a result, ours is now the home to the most lovely little 10-month old girl we could have imagined. We're profoundly thankful to the 'powers that be' that made this a reality for us. We look ahead to raising our daughter as best we can and affording her all the opportunities of life in America.

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