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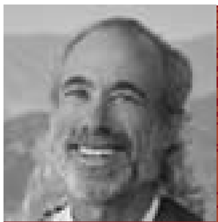

HAL BRILL

natural worldview

Slow Money to Speed Change

I am delighted introduce you to Malaika Maphalala. Besides having a name that's fun to say, Malaika adds much to our team. As you can read in her column, this is a woman who has plugged into many positive projects and picked up a ton of life experience. I met her last year at our annual SRI conference where she came to check out both us and the SRI movement.

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MALAIKA MAPHALALA

building sustainable community

The Creative Power of Humanity

Hello, Natural Investors! I am the newest member of the Natural Investments team and am so pleased to be a part of the work NI is involved with and excited to have joined such a great group of people. In my own life, I have been continually drawn to both work and lifestyles that support the building of community and sustainable culture, and have now

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CHRISTOPHER PECK

holistic solutions

The Whole: All Together Now!

The fall has always seemed like a time for coming home and getting settled. In the annual holistic financial planning calendar, we are ready to begin a new cycle. As we take stock of our lives after an active summer, it's a good time to look at where we are, to see how we're doing, and to begin the small steps of planning for the next year, including considering new

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SCOTT SECREST

what's up on wall street

Where Do We Go From Here?

Rarely has the stock market seen a rally with the force and the pace of the recent one. The Dow Jones Industrial Average rose 14% during the 3rd quarter alone. Since the March low, the approximate 48% rise in the Dow is one of just six of that magnitude (within comparable duration) in the last 100 years. So, where do we go from here?

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JAMES FRAZIER

beyond the headlines

Does the National Debt Matter?

Much of the controversy over the health care proposals in front of Congress has swirled around their cost. Reform opponents claim that expensive overhauls, bailouts, and the resulting massive federal budget deficits will weaken our country. This column will attempt to answer the question: Is this hype or reality?

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FROM PAGE 1 It's music to my ears when she writes that she is joining us to help focus "the creative power of humanity to innovate". I too left the non-profit world to work as an SRI financial advisor, so her insights about the power of capital hearken back to ideas that fueled my own career change.

Malaika is joining us at an exciting time. The range of investments has grown from just a handful of SRI funds when we started in the 80's to hundreds of values-based options. SRI has become a global movement, corporate responsibility is a mainstream issue, and the opportunity to create a low-carbon economy is the major thrust of the current administration.

But despite these achievements, the challenges have grown even faster. The earth is groaning under the strain of supporting consumption-based lifestyles, while debt-based economies demand even more consumption to keep the whole game going. In an ideal world, we would have a coordinated global approach with sufficient wisdom and clout to address global challenges while keeping local economies vibrant. But Wall Street and a handful of mega-banks are designed to funnel capital into globalization, while the local realm has been almost ignored by the investment world. In response, many people are finding that the local level is the most appropriate place to direct their energies, for it is in our neighborhoods and communities that we can have the most meaningful impact.

So I was elated when I picked up a new book called *Slow Money* written by Woody Tasch. Just the title gets your attention...who talks about the speed of money? But money has gotten fast, whizzing around the world as blips of data, seeking the highest return no matter what the consequences for the planet. Slowing money down fits right in with "natural" investing – our term for investing in ways that are aligned with the planet's patterns at a deeper level. In September I attended the first national Slow Money conference in Santa Fe. I felt right at home, as the 400+ attendees were a blend of activists from the financial, farming, and nonprofit worlds.

Tasch's focus is on local food, also known as the Slow Food movement. We all know the splendid taste of vine-ripened tomatoes and fresh-picked corn. Farmers markets have become the social event of the week. And despite jokes about arugula-eating yuppies, small-scale farming plays a crucial role in protecting food security. Connected to the land, with the knowledge of how to adapt to changing conditions, our very survival depends upon farmers maintaining an agricultural system that is truly sustainable for the long haul.

Today, food produced by local farmers for local markets is still only a tiny fraction of the overall food supply. Corporate agribusiness dominates the grocery realm, delivering cheap food, but at a tremendous environmental and social cost. Many of us would love to see local farmers reclaiming their traditional role of producing healthful food as well as building the soils for their bioregion. But the odds are stacked against them – the Monsantos of the world see agriculture as a business opportunity, and have amassed great wealth and power to keep themselves in a dominant role.

Enter Slow Money. One of the biggest impediments to helping local food systems prosper is the lack of available capital. Slow Money will enable investors to keep a significant portion of their portfolio close to home, investing in resilient food systems that keep us fed and protect the health of people and the environment.

I live amidst a cornucopia of local organic food. Paonia's mild climate and clean water has attracted young organic farmers. But farming is not only hard work, it is risky and expensive. It is almost impossible to get conventional financing. If there was a Western Colorado Slow Money fund, local money could fund the expansion of local food, enabling more farmers to produce a greater variety of food, and transitioning our food supply from one dominated by corporations back to one of family farms.

I'd love to talk to anyone who's interested in learning more about Slow Money. As this movement grows, Natural Investments will be part of the effort to make new kinds of funds available to invest in. Meanwhile, take heart that there are people like Malaika and Woody who are taking bold steps, helping to redesign the investment world so that it supports a healthy future.

building sustainable community

FROM PAGE 1 chosen to engage in the field of Socially Responsible Investment thanks to its power as a force of social change on a grand scale. Before making the transition to finance, I spent eight years in the non-profit sector where I was a co-founder of a non-profit organization and worked as an independently contracted administrator, grant writer, and program director for numerous organizations and community groups on the Big Island of Hawaii. I lived for 16 years in a beautiful rural area of east Hawaii where I was also a founding member and ten year participant in an intentional community focused on cooperative parenting, shared economics, and sustainable agriculture. The community today is home to the Dragon's Eye Learning Center (see picture), a nonprofit organization I cofounded, which has provided programming in the arts, alternative education, and sustainable agriculture since 2000, and more recently, Dragonfly, an alternative school, and the brand new Dragon's Eye CSA.

When I first made the transition to finance, I worked as the Business Manager of a private investment firm specializing in foreign currency trading. One of the things that most attracted me to the firm was their commitment to devote a significant portion of profits from their currency trading toward positive global and local work providing for the needs of poor children and families. My role was to develop and streamline their financial tracking and accounting systems and to help build the company's non-profit arm and social investment program. I left the firm in February 2009 and joined Natural Investments as an Advisor shortly thereafter.

I had been investigating the field of Socially Responsible Investing for some time and first met with Michael Kramer in Hawaii about a year ago. On his suggestion, I attended last year's SRI in the Rockies conference in Canada and was deeply impressed with the people in this field. It was a pleasure to be in the midst of such a large group of people filled with real passion and intensity about their work and focused in such intelligent ways on the things that really matter to me. In the face of the dire threats faced by people and the planet today, I take heart in focusing on the creative power of humanity to innovate our way out of the mess we've created. This industry is all about that. By fueling businesses that

recognize and take responsibility for our relationship with the earth, investing in sustainable development and supporting regenerative innovation, it's investing in a future we can really live with.

My arrival as an Advisor with the Natural Investments team also coincides with a time of great change in my life as my family transitions from 16 years in Hawaii to a new home in Oregon. We left behind a beautiful 3 acre homestead, a sweet pony named Buttercup, and some wonderful friends and family. My eldest daughter's entry into high school and the call of greater opportunity in a progressive city prompted our move to the Portland area, and we are in the process of adjusting to the change from a slower rural lifestyle to the suburbs and the city. I write to you from the beautiful town of West Linn which just had the honor of being named one of the top 100 places to live in the United States. West Linn has provided a warm welcome and seems to me it really deserves this distinction thanks to its friendly people, great schools, and beautiful neighborhoods and parks. Besides being one of the best places to live in the nation, West Linn is also part of greater Portland, which has been named the number one most sustainable city in the nation for five years running and holds the title of green building capital of the world. Portland's city planners have taken a green approach to its development since the 70's, so Portland has had a good 30 year jump on most other cities around the nation in sustainable development and is home to innumerable innovators on the sustainable culture front. As I settle into Oregon, I have enjoyed getting out and meeting with the movers and the shakers of sustainable Portland. In my future articles for this newsletter, I'll be sharing stories about some of these amazing local innovators and focusing on an arena in SRI I find particularly compelling: Community Investing – something Portland has been quite successful with. I'm looking forward to it!

FROM PAGE 1 potential income sources and other portfolio adjustments before the New Year. In that fall spirit I'd like to go back to the beginning of the holistic financial planning process, to the first step of assessing our situation: what we call "Defining the Whole."

When I was a permaculture landscape designer, sometimes I would show up at a new client's property, a piece of land I had never seen before, home to people I didn't know, and I would have a moment of terror: "Holy #%!*, I have no idea what to do here. What if they realize I know nothing?!?" We've all experienced this moment of insecurity, but what I realized is that terror is exactly why we have a planning process. A good process can be a safety net, a way of grounding yourself in the midst of complexity; at least it gives you a starting point. In those moments of terror looking at a new client and a new piece of land, what I *did* know was that the first step is always assessment: what is here? What are the existing conditions and factors to work with? And that is where the holistic financial planning process begins: at the beginning, with assessment, defining the whole situation we are working with.

In conventional financial planning we start with a rather narrow scope of assessment: financial statements. What do you have, what do you owe, what do you make, what do you spend? Otherwise known as assets, liabilities, income, and expenses. And we usually calculate several simple numbers such as net worth and net income. We might even look at debt ratios and savings rate. In holistic financial planning the financial data is crucial but insufficient. As you might imagine with a name like HOLISTIC financial planning, and taking a first step called "Defining the Whole," we take a broader and more comprehensive look at assessment.

I've been integrating Ken Wilber's work into holistic financial planning over the last several years. There's a thousand pages of theory to get you up to speed with Wilber, if you're not familiar with him, but let me cut to the quick (with the help of a handy graphic). When taking stock of your whole, keep as broad of

a perspective as possible. Financial numbers are crucial and at the same time so are personal elements such as emotional and spiritual well-being, physical health, motivation, and productivity. Look also at who comprises your various *we* elements: your family and friends, business associates, social networks, your spiritual or religious community. And look at how you're embedded in larger systems such as your ecological footprint, and your community contribution and legacy. Evaluate where you are in each of these areas, and write it down. Some of these assessments are subjective, such as emotional and spiritual health, where you describe how you feel. Others are objective, like ecological footprint, financial statements, or your blood pressure. Some are neither; they are primarily existential. Unless you get off on counting your number of Facebook friends, it suffices to list your most influential and important family, friends and associates, and describe the broader networks and communities you're a part of. Don't get stuck in precision; aim for inclusion and broad strokes. It will become obvious if you've forgotten something.

One last point: **write it down**. In 1992 I started a Masters of Science in Sustainable Systems, essentially a formal degree in permaculture. I arrived a week early to get oriented and set up my office. No one else was on campus and I had free time. My mother had given me Steven Covey's *7 Habits of Highly Effective People*. I had read it and thought about it, but hadn't written anything down yet. So, with my free time, I did. And what I wrote down and realized in those several hours changed me. I realized with a jolt that I shouldn't go to graduate school, that I should leave Pennsylvania, return to Santa Fe, and educate myself in permaculture through on-the-job training. It was a shock because it was so clear. And painful and a little embarrassing too. I didn't own a car, so my parents, who had just driven me there from Missouri, would have to drive back and take me home. I slept on it. The following morning I called and, in testament to their generosity, they barely blinked, and gladly drove out and retrieved me. I have never regretted that moment, or the power of writing something down. Thinking, reflecting and ruminating are essential, but true change begins when you take the time to put your insights into words, and then use these written glimpses as part of the ongoing process of consideration. I encourage you to give it a try!

FROM PAGE 1 The Dow hit a 12-year low on March 9th of this year. Optimism was a very rare commodity at that point. Yet the turn-around began right there – in the jaws of one of the worst stock market runs investors had ever seen. This illustrates how unpredictable the stock market can be in the short-term. Even for long-term investors, the market declines of 2008 and the first quarter of 2009, together with the period's dire economic events, were deeply unsettling.

The sub-prime mortgage debacle and subsequent housing market crash, as well as the collapse of a host of speculative Wall Street schemes, destabilized the global economy to a point of near catastrophe. Stock values were slashed by half, commensurate with the economic storm.

In a contracting economy, businesses and consumers tighten their purse strings, trying to weather the downturn. For businesses, hiring stops, inventories decline, investment in operations and expansion plans are put on hold. For consumers experiencing declining or lost incomes, or fear of them, expenditures are limited to just the essentials.

In September Fed Chairman Ben Bernanke declared the recession "very likely over." However, he added that "it is still going to feel like a very weak economy for some time," because of the expected slow recovery in employment and lingering economic weakness.

The stock market again proved to be a reliable "leading indicator" for the economy. In March, the market's unlikely turn upward was the first signal that the economic clouds could be lifting. And, indeed six months later, the Fed Chairman along with economists from across business and academia believe that the economy will show growth during the third quarter.

Investors continually reassess their outlook for the stock market. At Natural Investments, we believe that there are increasing signs that the economic recovery is gaining traction. Correspondingly, more investors are coming off the sidelines and buying stocks, particularly in industries believed to offer the strongest prospects during an economic bounce. Among these are retail merchants and manufacturing, both of which have shown improvement lately as consumers and companies begin to make purchases that have been on hold.

Business inventories remain historically low as managers have been cautious and wish to keep budgets lean until further confirmation of growth is clear. However, this also means that with even a modest uptick in demand, production will need to jump too. New production also means people getting back to work, and beginning to spend their renewed income.

We in the SRI community are hopeful that the painful lessons of this recession will not be lost. Among the areas of needed reform are: more stringent Wall Street regulation, more accountable board practices, less borrowing by business and individuals, and more investment in the development of a low-carbon economy. Political will, shored up by public demand, will be necessary to make these things happen.

Throughout the upheaval of the last two years, advancements have continued across a wide range of alternative energy and energy efficiency fronts. This has been supported by venture capital, public investment in equities and lending (SRI), government programs, and entrepreneurial drive. The need to create and use energy in a sustainable way has been our common aspiration.

American photovoltaic cell and module production capacity is estimated to grow at an annualized rate of 45% to 50% from 2008 to 2012 – dramatic growth by any measure. More plants were announced in the first half of 2009 than in the previous three years combined.

The Federal government is also currently issuing some $550 million in green energy cash grants. This is part of a "cash instead of tax credits" program which will benefit not only renewable energy developers, but also manufacturers.

So, where do we go from here? We must recognize the possibility of a near-term decline in stock values, due to continued risks in the markets. Also, we have not ruled out the possibility of a "double-dip" recession by which there could be a period of economic slowdown again in the coming months.

The Fed will need to manage the current rebound with exquisite skill to avoid snuffing out the recovery by increasing interest rates too soon or too rapidly. But they must also rein in the extraordinary monetary stimulus that was injected into the economy, in order to avoid future runaway inflation. This is a big challenge, and one we will monitor carefully.

However, our belief is that the economy is on stable enough footing to maintain the recovery. In this environment, it is a good idea for investors to reassess their risk comfort levels with their NI advisors. We continue to believe that careful selection of investments in socially responsible companies will be among the most promising strategies in the market.

FROM PAGE 1 First of all, it is crucial to note that the current debate over health care reform and budget deficits has become extremely polarized. When almost everyone involved, including many "experts," has an obvious political agenda or bias, it becomes extremely difficult to get reliable information. Add in the obscure nature of government finances, and how is one to muck through the debate to get a sense of the reality beyond the headlines?

When confronted by important issues and confounding mass psychology, my best guide has always been history. By taking a look at what our ancestors experienced, and how things worked out for them, I often find that our current predicaments, however immense they may seem, are nothing more than a new twist on a very old theme. For example, in 1855, Lord Thomas Macaulay wrote in his book, *The History of England,* "At every stage in the growth of that [national] debt the nation has set up the same cry of anguish and despair. At every stage in the growth of that debt it has been seriously asserted by wise men that bankruptcy and ruin were at hand. Yet still the debt went on growing; and still bankruptcy and ruin were as remote as ever." Over 150 years later, England and its debt still seem to be getting by reasonably well.

Looking at the recent history of the USA, there is only one extreme point to compare with: the national debt that was incurred during the Great Depression and World War II. How does the current situation measure up against that grave time in our nation's history?

The size of the national debt, when taken as an absolute number (staggeringly huge as it may seem), means very little. Only when it is compared to something else, such as the total output of the nation's economy in a given year (a.k.a. Gross Domestic Product or GDP), can we get a sense of how substantial the national debt really is. At the end of World War II, the USA had a debt-to-GDP ratio of around 120%. Currently, we have a ratio of around 70%. At first glance, this tells us that we still have room to take on more debt and survive. Looking deeper, it seems that some kind of catalyst, like the end of a major war and/or a robust economic recovery, may ultimately be needed to turn this rising trend around.

Not all borrowing is equal, nor is all debt bad. From a financial perspective, it makes sense to borrow and invest in future productivity, which eventually enables the debt to be paid back, and then some. Thus, borrowing in order to invest in strong banks, a healthy and well-educated population, renewable energy, public infrastructure like highways, energy efficiency upgrades, and poverty reduction, can be very shrewd if it leads to a sustainable economic recovery that makes the national debt smaller by comparison.

It remains to be seen if we will experience that crucial catalyst we need to slow or reverse the growth of our national debt. If skeptics are right, and financial disaster becomes imminent, how would we recognize it? We might see it in the financial marketplace for U.S. government debt, otherwise known as the Treasury market, where we would see rising Treasury interest rates, which could in turn raise borrowing costs throughout our economy. We also might see the value of the U.S. dollar decline, with corresponding rising prices of foreign currencies, commodities such as food and gasoline, and consumer goods. Clearly, this important issue can affect us all.

In the Treasury market, as of this writing, the massive auctions of new U.S. government debt over the past year have been digested relatively well by the global financial markets. Interest rates are still relatively low, which tells us that there is still solid demand for U.S. debt. Even after the recent financial crisis, lending to the U.S. government is still considered the safest investment in the world. If that changes, financial markets

will tell us very clearly.

At Natural Investments, we continue to keep a sharp eye on these issues. All of our model portfolios contain international bonds which serve to protect against a continued decline in the value of the U.S. dollar. We have also recently made the strategic decision to reduce interest rate exposure in our model portfolios, which means that the negative impact of rising interest rates should be muted.

As history has shown, we are most likely to survive this situation as a country. While the weight of the evidence on the national debt seems to be "So far, so good," an ounce of precaution is warranted. Therefore, we seek to protect our clients' portfolios while expecting a positive and prosperous future in the long run.

making a difference

MICHAEL KRAMER

It's been over a year since the fall of Lehman Brothers sparked major tremors in the U.S. financial system that rippled around the planet. Though lawmakers called for reform, much of the financial services industry remains unchanged a year later. The wholesale restructuring advocated by the social investment industry, economists, and academics has thus far been met with strong opposition from the industry, and Congress' lack of expertise left them unable to do anything other than infuse large banks with cash. The needed structural changes in our system remain conceptual and haven't even been fully debated.

Yes, there were calls for bonuses to be recalled and executive pay to be restricted, particularly for those institutions that accepted the bailout money, but all that money was given without use restrictions, which is likely how the five largest banks generated $13 billion in profit in the second quarter. Executive pay has returned to pre-crash levels, and boosted by a 6-month stock surge, the government has not seemed motivated to address the necessary reorganizing, decapitating, or re-regulating of banks to require prudent credit assessment and risk management procedures. Derivatives are still traded, banks don't have to disclose what they're doing, and there are no leverage restrictions that financial institutions and firms must maintain.

Going back to business as usual should not be tolerated. In July, the Obama administration released its road map, *Financial Regulatory Reform: A New Foundation*, which includes both general and specific frameworks to strengthen discipline, transparency, disclosure, accountability, and regulation in the financial system. In support of this effort, the Social Investment Forum, of which Natural Investments is a member, is formally advocating these needed reforms for the corporate/investment industries:

1) **Improved Corporate Governance:** allow board slates to be nominated by shareholders, separate the Chair and CEO board positions, and mandate shareholder votes on executive compensation.

2) **Disclosure on Environmental, Social and Governance (ESG) Factors:** require corporations to disclose ESG information to their shareholders and the public using the Global Reporting Initiative's framework


FINANCIAL REGULATORY REFORM

A NEW FOUNDATION:

Rebuilding Financial Supervision and Regulation

3) **Regulation and Oversight of all Investment Products:** All investment vehicles, including hedge funds, should be required to register with and be overseen by the appropriate agency. The vast majority of over-the-counter derivatives should trade on an exchange to improve transparency of the market, increase liquidity, lower the costs to investors, and allow for the monitoring of systemic risk.

4) **Sufficient Resources for Regulators:** regulatory bodies, particularly the SEC, need the resources and political support to succeed at their jobs, and the appropriate oversight to assess their performance.

5) **Creation of a Systemic Risk Regulator:** A systemic risk regulator must identify and reduce risks that could threaten the broader financial system, stopping institutions from creating systemic risk by growing beyond a manageable size or complexity, becoming too interconnected, or engaging in certain activities.

6) **Better Consumer Protection:** A new agency should be created to improve disclosure and regulation of consumer credit products, as well as control predatory lending and the sale of inappropriate mortgages and lines of credit.

7) **Improve Rating Agencies:** Standards for all ratings must be raised and their practices supervised by the federal government to avoid over-rating mortgage backed securities, collateralized debt obligations, and the like. Conflicts of interest, such as issuers paying the agencies for their ratings and agencies providing consulting services to the corporations they rate, must cease. Finally, rating agencies must not be allowed to be exempt from civil liability.

SEC Update

The SEC just created a Division of Risk, Strategy, and Financial Innovation to research and address market trends by combining economic, financial, and legal analysis. The move should address the harmful practices and impacts of derivatives, hedge funds, and corporate governance policies, and hopefully will improve regulatory activities regarding risk and leverage rules for investment firms.

In addition, the social investment industry continues to press the SEC to restructure executive oversight and compensation, in order to better assess risks taken by decision-makers. We also are supporting the SEC's proposed requirement that gender and ethnic diversity of director nominees be disclosed, and that candidate's board experience within the past 5 years and involvement in legal proceedings within the past 10 years also be disclosed.

In these unprecedented times, the social investment industry is seizing the opportunity to suggest regulatory reforms that we have long believed would protect the general public from exploitation and harm while supporting the integrity of the financial industry and the overall health of the economy. We are encouraged that the Obama Administration is actively seeking our input and adopting many of our recommendations as its own.

At Natural Investments, we believe our clients should not have to compromise financial returns in order to leave this world safer, stronger and healthier for future generations.

INVESTMENT TEAM

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