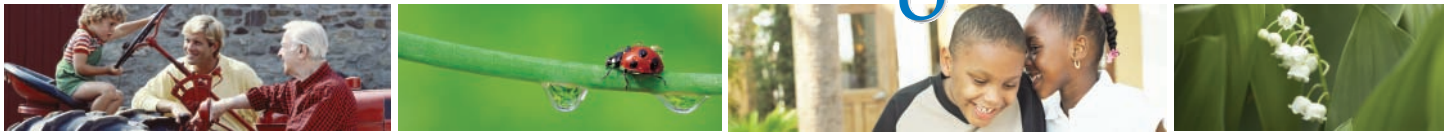


# Affirmative Thinking



A Newsletter of First Affirmative Financial Network, LLC

Fall 2007 | Volume 9, Issue 4

## Record Setting Year for Activist Shareholders

For years, business leaders dismissed dissenting shareholders as rabble-rousers dragging social, labor, and environmental issues into boardrooms. They argued that executives and directors—not investors—should run companies.

Today, however, activist shareholders are gaining more clout. Shareholder proposals on CEO pay and other hot-button issues are receiving record high support votes of 30% to 60% from investors.

Carol Bowie of **RiskMetrics Group** (formerly Institutional Shareholder Services) reports a record 1,169 resolutions this year—with 23% withdrawn after companies adopted new policies or sat down to discuss the issues.

The 2007 proxy season showed that relations between shareholders and companies are improving, with more corporations and investors seeking common ground on issues. There are several reasons for this change.

- After Enron, companies increased oversight due to tougher anti-fraud and accounting laws, the federal crackdown on corporate crime, and

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## The Folly of Trying to Predict

R. Kevin O’Keefe, CIMA®, AIF® | Chief Investment Officer

Every December, *Business Week* publishes stock market predictions from selected Wall Street strategists—who often miss the mark (see sidebar Page 3). In fact, over the past decade, these expert predictions have been off by a whopping 16 percentage points per year on average.

Why is the futility of predicting the economy, earnings, interest rates, and the market so frustrating? Because we think they should be predictable.

We are pattern-recognizing creatures. Over many thousands of years, humans best equipped to survive were those who quickly recognized both danger and opportunity, and who acted quickly to avoid sudden, violent death, or to procure a good meal. These were our ancestors who survived long enough to pass on their genetic traits.

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## Year-End To-Do’s

- Review your charitable giving. Don’t wait until the week after Christmas to make gifts of securities.
- 2007 markets have been especially volatile. Realize losses to offset gains, or vice versa, where possible.
- Schedule an appointment with your adviser to discuss your financial and investment plans.
- Evaluate your income status, and take steps to maximize deductions or shift income into next year.
- Determine if you need home improvements that qualify for energy conservation tax credits or deductions, like insulation or windows.

## History Made at the UN for Indigenous Peoples!

After more than 30 years of debate, the United Nations General Assembly has adopted the [Declaration on the Rights of Indigenous Peoples](#). One hundred forty-four states (“countries”) voted in support of the Declaration, 4 against, and 11 abstained.

Under the Declaration, for the first time, the UN officially recognizes that the rights affirmed in Treaties are “matters of international concern, interest, responsibility and character” and that states are obligated to uphold and honor them.



Victoria Tauli-Corpuz, Chair, UN Permanent Forum on Indigenous Issues, addresses the General Assembly after the adoption of the Declaration.

The Declaration also recognizes Indigenous Peoples’ inherent rights to self-determination, traditional lands, territories and natural resources, cultures and sacred sites, means of subsistence, languages, identities as well as traditional life ways and concepts of development based on free, prior and informed consent, among others.

The Declaration marks the first time that Indigenous Peoples have been recognized as “Peoples” without qualification in an international instrument.

The United States, Canada, Australia, and New Zealand voted against the adoption; in their view it “goes too far” in recognizing the rights of Indigenous Peoples.

## America at an Environmental Tipping Point

In late August, GfK Roper Consulting released its 2007 [GfK Roper Green Gauge](#) study. The study found that the vast majority (87%) of U.S. consumers are seriously concerned about the environment. The top five environmental issues weighing heaviest on our minds are:

- 1 & 2. water pollution and rainforest destruction (56%),
3. diminishing fresh water supply (55%),
4. fuel and energy shortages (54%), and
5. man-made outdoor air pollution (53%).

The study results suggest companies that are slow to take green action may hinder their future growth. A vast majority of consumers say a compa-

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## Record Setting Year for Activist Shareholders

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rulings holding directors liable in shareholder class-action lawsuits.

- More investors and companies realize that corporate governance, labor, and environmental concerns are mainstream issues.
- Faced with new rules and regulations, executives and directors prefer to meet privately with shareholders over corporate-governance issues.

Rather than wait for mandates, “smart companies implement best practices voluntarily and on their own timeline,” says Tracey Rembert, senior governance analyst, [Service Employees International Union](#) (SEIU).

Shareholders’ votes are only advisory, but publicly traded corporations can ill-afford to anger investors who hold billions of dollars in stock.

### 2007 Proxy Season Highlights

**Out-of-Control Executive Pay.** As CEO pay rises, shareholders push to cap excessive salaries and stock packages at poorly performing companies. This year, a record 124 pay-related resolutions—with 30–43% support—fought to link executive pay to performance, give shareholders advisory votes on pay, and halt stock option backdating.

**Global Warming Resolutions.** A record 43 global-climate resolutions were filed with energy, auto, home-building, and financial companies—one-third of which were withdrawn after the targeted companies agreed to reduce their greenhouse gas emissions or report on their energy-efficiency plans. The resolutions that went to a vote garnered a record 22% support, says [Ceres](#), a coalition of large shareholders and environmental groups. (See more [climate change](#) news online.)

Acknowledgement: This article was adapted from a summary of shareholder activist successes by Edward Iwata published in *USA Today* on September 7, 2007.

# The Folly of Trying to Predict

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Even today, much depends on our ability to make instant judgments based on limited information—driving in traffic, multi-tasking at work, or interacting with family and friends. Malcolm Gladwell, in his recent book, *Blink*, discusses how adept we are at making quick, accurate judgments.

But our remarkable ability to recognize patterns is a detriment when we are dealing with randomness. We see patterns even where there are none; and we want to predict what will happen, even when there is no rational basis for doing so.

What are the implications for investors? It means that we have to protect ourselves from our own instincts. We cannot control the stock market or divine its future. But there are some things we can do:

- set and maintain realistic goals;
- manage portfolio risk;
- control investment expenses; and
- use an investment policy statement (IPS) to guide decisions.

Being a successful investor does not come naturally. Yet, our rational brains can be put to use to overcome our counterproductive instincts.

## *Homo formapetens:* "Man the Pattern-Seeker" Misses the Mark

- **December 2001.** Experts predicted the S&P 500 stock index would *gain* 15% the next year. The S&P 500 actually *lost* 22.1% in 2002.
- **August 13, 1982.** Experts predicted stock market doom and gloom. Many remain bearish for months as one of history's great bull markets began that day.
- **January 1980.** With gold at \$850/oz, Treasury Secretary G. William Miller said it didn't seem appropriate to sell gold. The next day, gold fell 17%. By 1985, the price of gold was under \$300/oz.

Acknowledgment: Portions of this article owe credit to Jason Zweig, *Your Money and Your Brain*, Simon & Schuster, 2007.

# America at an Environmental Tipping Point

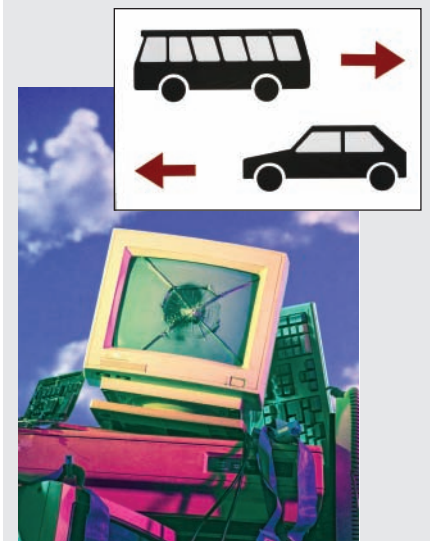
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ny's environmental practices are important in making key decisions: the products they purchase (79%), the products/services they recommend to others (77%), where they shop (74%), where they choose to work (73%), and where they invest their money (72%). See the [expanded article](#) online to learn more about America's "environmental awakening."

## What if Everyone Consumed Like You Do?

In mid-September, American Public Media™ distributor of public radio programs such as *A Prairie Home Companion* and *Marketplace*, unveiled [Consumer Consequences](#), an online game that lets people see the environmental consequences of their lifestyles.

American Public Media journalists worked with video game developer Realtime to create a "serious" game, which allows Americans to redesign their lifestyles to try to live within the world's resources.



As you answer questions about whether you drive or ride public transportation, how often you replace things like TVs and computers, and what foods you eat, the game calculates what would happen if all of the planet's 6.6 billion people lived the way you do.

Scores reflect the number of Earths it would take to support your lifestyle. Anything over one Earth is unsustainable.



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## More Online!

Access related links and resources as well as more articles when you read our newsletter online. **Bold blue** text indicates additional material online.

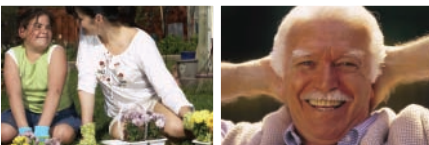


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## Water: Bottled or Tap?

Christine A. Renner | Executive Assistant to the CEO

**T**hirty years ago, the U.S. bottled water industry barely existed. Last year, Americans spent \$15 billion on bottled water. For a generation disdainful of tap water, a chilled convenience store bottle of water serves as a symbol of our demand for instant gratification.

Successful marketing strategies have convinced many of us that bottled water is healthier than tap water. While it is a better choice than soda, there is little evidence to support the marketing hype.

With rare exceptions, U.S. tap water is very safe. Through constant monitoring and public test results the Environmental Protection Agency subjects tap water to strict standards. However, the Food and Drug Administration leaves it largely to bottled water manufacturers to produce safe products with truthful labels.

In 1999, the **Natural Resources Defense Council** found that bottled water can contain higher levels of contaminants than tap water. And, plastic bottles come with a considerable environmental burden—the industry depends upon cheap fossil fuels for packaging, transport, and refrigeration.

The United Nations considers access to clean, safe, affordable drinking water a basic human right. In a world where 1 billion people have no reliable source of drinking water and 3,000 children a day die from diseases contracted from tainted water, a growing bottled water industry that perpetuates a decline in the public's trust of tap water sets the stage for larger privatization schemes, and more costly water for all.

As we reach for the next bottle of water, it's reasonable to ask whether the value equals the impact. Asking the question takes the carelessness out of the transaction and indicates a level of awareness characteristic of a socially conscious consumer. Once we do that, it's hard to look at that bottle of water the same way again.

Acknowledgment: Portions of this piece were adopted from an article by Charles Fishman published in **Fast Company**, July/August 2007.

### The Real Costs of Bottled Water

- Americans consume 1 billion bottles of water each week: more than milk, coffee or beer. That's 50 billion bottles each year or 167 bottles annually per person.
- 24% of bottled water is clean tap water—filtered again and packaged by Coca-Cola and Pepsi.
- Americans spend 4,000 times more for bottled water than tap water—3 or 4 times what we spend for milk or gasoline.
- Only 23% of plastic water bottles are recycled.
- Each year, 38 billion bottles go to landfills—representing over \$1 billion in recyclable plastic
- The **Earth Policy Institute** estimates the amount of oil used to produce plastic bottles may now exceed 10 million barrels each year—enough to power 600,000 cars.