



Compass Points



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Headlines

This is our latest entry in the ‘provocative financial headline’ competition.

Weed Users Avoid Smoker Penalties At 29% Of U.S. Life Insur- ers

Marijuana users, who can now buy weed without fear of arrest in some US states, can also get life insurance without facing a smoker penalty--if they shop carefully.

Source: FA Insurance & Annuity News July 8

Charitable Giving: Stock vs. Cash

“88% of High Net-worth individuals still support charities with cash. This is the least tax efficient form of being a donor.”

Source: FA Magazine July Edition

As long-standing proponents of gifting appreciated stock and mutual fund shares for charitable purposes, we were surprised that the percentage of cash gifts was this high. We still think gifting stock and/or mutual fund shares is a better way to go. Let us know if we

can help you support a favorite charity with such a gift.

Numbers, Credibility and Repetition

Stephen finished reading David Eagleman’s book ‘Incognito’ in July. As one proponent wrote, “... brilliant view of modern neurobiology.”

Mr. Eagleman’s central thesis is that the vast majority of what the brain does on a daily basis is simply beyond our comprehension. We enjoy what is really a delusion when we believe that our self-consciousness is somehow dominant.

He cites several studies that focus on what we are inclined to believe consciously and otherwise. For example, most of us are predisposed to find an assertion that includes numbers as more credible. Think of the instances above: “29% of Life Insurers,” “88% of donors.” This holds true even when the assertion is blatantly **false**.

Add repetition to the equation and we are even more inclined to believe something that is not true. Repeat it often enough, throw in some numbers and the credibility level increases without regard to actual truth or falsehood.

The ‘repetition’ aspect of credibility hit home after a second quarter when national news was dominated by constantly rerunning updates on two inmates who escaped the New York penal system and the pending collapse of Greece’s economy. Somehow the sheer volume of constant, recycling coverage elevated two specific events well above and beyond any objective understanding of their relative importance.

‘Incognito’ Footnote

Those of you who work crossword puzzles, enjoy games and competitive card playing might enjoy reading about something neurobiologists are calling ‘cognitive reserves.’ Scientists find that enjoying these pursuits and maintaining them into later life allows us to build ‘cognitive reserves’ even in the face of debilitating brain diseases. Building ‘cognitive reserves’ can compensate for some of the damage done in other parts of the brain due to disease.

Does Social Investing Affect Performance?

Socially Responsible Investing (SRI) adds additional layers of investment selection criteria above and beyond fundamental financial analysis. It adds considerations for corporate governance practices, environmental

impacts, employment compensation & benefits, leadership diversity and corporate philanthropy.

Over the years we’ve read and heard perspectives on SRI investing that cover the full range of pro and con. A common and persistent view is “Who cares? I’ll make money the best way I can and then I’ll go do good things with what I make.”

Occasionally, someone does some serious digging for information. We thought the following was worth the reprinting — in part — because we know some of the people involved and respect their efforts.

“The evidence, amassed through hundreds of studies, shows that historically, SRI Indexes have performed as well as or better than their conventional counterparts.”

For example, in a white paper published in 2014, TIAA CREF selected five widely known US equity SRI indexes with track records of at least ten years – Calvert Social Index, Dow Jones Sustainability US Index (DJSI US), FTSE4Good US Index, MSCI KLD 400 Social Index, and MSCI USA IMI ESG Index – and compared their returns with two conventional US equity-based indexes, the Russell 3000 and the S&P 500. The analysis found that the

SRI indexes performed competitively with the more conventional indexes.

Likewise, a 2015 survey by Morgan Stanley Institute for Sustainable Investing found that, “Benchmark performance of the MSCI KLD 400 Social Index, which includes firms meeting high Environmental, Social, and Governance standards, has outperformed the S&P 500 on an annualized basis by 45 basis points since its ‘inception in 1990.’”

Source: Green America, Summer 2015 Issue 102

Note: The ‘KLD’ in the MSCI KLD 400 Social Index refers to Kinder, Lydenberg and Domini. Peter Kinder, Steven Lydenberg and Amy Domini were early advocates and promoters of SRI investing. Stephen enjoyed the opportunity of meeting all three of them early in the 1990s in Boston. Although many others preceded them in the field of SRI investing, their firm, KLD was the first to establish a SRI Index in 1990.

Downward Dow

The closing days of August witnessed dramatic drops, measured in hundreds of points, for all major equity indexes in the US (DJIA, S&P500 & NASDAQ). This followed a days-earlier decision by the Chinese to finally let their sovereign

against other world currencies. ('Float' is financial jargon for 'trade' as in the Euro is trading at \$1.17 versus the US dollar).

Previously, China incurred the displeasure of the EU, US, Japan and other nations for maintaining a fixed rate of exchange for their currency in a global environment where other currencies trade in open markets against one another. Implicit in this displeasure was the conviction that the fixed price previously maintained overvalued the Renminbi.

When the currency began to trade it also dropped in value against other world currencies. That drop (i.e., in currency evaluation) coupled with dramatic drops in equity markets obscured two important things. (1) China allowed their currency to trade in open markets for the first time in decades. (2) The devaluation relative to other currencies confirmed the belief that the renminbi was previously overvalued.

Concurrent with the currency devaluation, China experienced a major sell-off in its equity markets. Both Shanghai and Hong Kong sold off, reflecting a slow-down in the Chinese economy. At the start of the sell-off, China engaged in various efforts to manipulate the market and stop the selling. As of this date they are letting

both their currency and markets trade without intervention. This is a major, positive change.

US Markets – “What about my IRA!!!!”

Events in China prior to the US sell-off are only part of the story, the trigger, not the pistol. Factoring out the fear driven panic selling, anyone with any experience would argue that we are due for a market correction after more than five years of double-digit returns. Our best judgment is that two-thirds or possibly three-quarters of the sell-off is attributable to investor panic. The balance is evidence of a reasonable and timely correction.

Are we headed back to 2008 and another 'great recession?' No.

Is it 1927 all over again and we just can't see the Great Depression coming like a train wreck? No.

The US economy is strong and growing in steps and starts. Job creation, housing, and manufacturing are repeated examples.

With crude oil trading below \$40.00 a barrel the impact on the oil and gas industry is a clear negative for that sector of the economy. However, low

energy prices are a clear benefit for virtually every other sector of the economy. The sources we respect argue that we are likely to experience years of lower prices for carbon-based fuels.

Our advice is to stay the course and don't fiddle with your IRA or other accounts. If we see anything that suggests we should change our mind, we'll let you know. For the time being we see this as a great opportunity for investing.

Email Address Change

We want to take another opportunity to remind you of our email address change. The new addresses are:

stephenl@theroseim.com

susanl@theroseim.com

As always, we are grateful for your continued support.

Thank You,

Stephen & Susan

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