FINANCIAL PREPAREDNESS

"One of life's most painful moments comes when we must admit that we didn't do our homework, that we are not prepared." ~ Merlin Olsen

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My Corporate Social Credit Score

This issue marks the three year anniversary of the Financial Preparedness newsletter. If I have created value for you during the last 156 weeks, please consider returning value for value by upgrading to a paid subscription. I would greatly appreciate your support, which would allow me to continue my work.

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For years now, I have been warning that the shocking and unprecedented recent transformation of corporate governance away from the maximization of shareholder value and towards corporations becoming *de facto* social justice nonprofits would help precipitate and exacerbate the next U.S. stock market crash, which will be part of the worst financial and economic crisis in human history.

Making such a prediction isn't rocket science, it's more like a mathematical equation, or shooting fish in a barrel. If well over 100 major corporations have said that their purpose will now be to provide substantial benefits for four different groups of "stakeholders," and the shareholders can have whatever is left over, you have to take them at their word.

If the three dominant investment management firms (Blackrock, State Street and

Vanguard)--which have enough proxy votes to determine the personnel and policies of publicly traded companies--declare that they will "mobilize" the capital of their customers to achieve the goals of the World Economic Forum (i.e., The Great Reset), the United Nations, environmental activists, social justice warriors, etc., you have to take them at their word, especially since they are apparently not afraid of a class action lawsuit for violating their fiduciary duty to their customers.

If corporations voluntarily donate just shy of $100 billion to the (Marxist) Black Lives Matter and related causes while slashing dividends, that will reduce the return and increase the risk of investors. If companies decide to hire and promote employees based on criteria other than productivity, value creation and excellence, the financial consequences--which are completely predictable—will harm investors. If corporations choose suppliers and vendors based on considerations other than price, quality and reputation, eventually investors will suffer as a result.

If corporations shift their attention from serving customers by making good products and services at a reasonable price to virtue signaling and interjecting themselves into the most polarizing and toxic political environment since the Civil War, they will permanently alienate about half of their customers, employees and investors. You don't have to be a fortune teller to figure out what happens next. Companies such as Anheuser-Busch, Disney and Target learned that the hard way.

Although I'm a libertarian, my interest in this is not political, it's fiduciary. As an investment advisor, I have a legal duty to put the interests of my clients above all else. Unlike the vast majority of investment management firms today—which are now controlled by woke ideologues, many of them Millennials--I take that responsibility seriously. Besides, protecting and growing my clients' wealth is just common sense and good business. Why would I want to place it at risk unnecessarily by using it to fund dubious projects and policies that have nothing to do with their financial interests?

A year ago, there were over 140 firms in the U.S. that calculated ESG (environmental, social and governance) scores for corporations. You may have also heard how the Chinese government has been calculating a "social credit score" for each of its citizens. Over the last several years, I have been developing my own proprietary "corporate social credit score" based on about 55 (so far) different data points that I track on a massive spreadsheet.

I'm sure there are a number of individual investment advisors who are skeptical about ESG, but I am not aware of any who have invested so much time and energy in this. Many if not most financial advisors actually outsource the management of their clients' portfolios to mutual funds, ETFs (both of which are controlled by the ESG-focused big three investment managers above) or third party investment advisors, either because it saves them a ton of time and energy, or they don't believe they know enough to do the job themselves.

So besides being an independent thinker far from the maddening crowd (my home office in the woods and mountains is about as far away from the Hive Mind of Wall Street and

CNBC as you can possibly get) and a contrarian value investor whose BS detector is permanently set at the maximum setting, my corporate social credit score is a major component of my unique selling proposition, and an innovative tool that helps me create value for my clients. Again, it should be easy to figure out how this movie will end, but apparently I am one of the few investment advisors who never fell for the siren song of the ESG harpies.

My corporate social credit score includes support for policies, groups, laws/regulations or politicians that would reduce investors' return and/or increase their risk. I have to adjust a number of data points (e.g., the amount of money donated to BLM) for the company's size. For this, I use the number of employees at the time, instead of something like market capitalization, which is affected by how richly valued the company is. For example, Intuit's $1 million donation to BLM was nearly *de minimis* given its 10,600 employees, resulting in a score of -1. The $810 million that Blackrock (*which happens to be the largest of the three asset managers* mentioned above) donated to causes related to BLM was gargantuan for its 17,450 employees, resulting in a score of -464, the worst that I have calculated so far.

I recently discovered a source for detailed ESG scores from one of the more recognized providers, and will be using the *inverse* of those scores as one of the inputs for my corporate social credit score. For example, if a company's ESG score could range from 0 to 10 (with 10 being "best"), and its score is 8, then my corporate social credit score for it would be a 2 (10-8).

It's important to note that most data points for my corporate social credit score are not available for foreign companies. But then, much of the world is probably not wrapped up in all of this nonsense but is more focused on economic survival (though it's a safe bet that most European companies are "all in" on ESG, to the point of corporate suicide). So the score is a consideration only when evaluating U.S. corporations.

And it's just that—one consideration. I also have to consider many other (traditional) factors, including valuation, financial strength, profitability, growth, dividends (yield, increases, growth rate, safety), ownership (by insiders and short sellers), etc. To use an analogy of college admissions, these fundamental metrics would be like GPA and courses taken, the Beneish M-score would be like the SAT score (just a validation of the GPA), my corporate social credit score would be like extracurricular activities, and the company's virtue signaling (or lack thereof) would be like the essays—not really considered unless they're out of the ordinary. Generally, the corporate social credit score won't be a deciding factor, but in a close situation, it would affect my decision to invest.

Companies that have signed on to the Business Roundtable's redefinition of the purpose of a corporation (away from maximizing shareholder value) are like high school students who've said they're not interested in studying or learning, and are rejected outright, with no deferral letter.

I don't invest in countries that don't value private property rights or protect the rights of investors (which is actually at least two thirds of all the countries). But you can no longer

assume that just because a corporation is domiciled in an investor-friendly country that the company *itself* also treats investors fairly. The vast majority of investors still haven't figured this out. Even worse, their investment company is probably actively and recklessly using their hard-earned capital to finance irrelevant and unprofitable environmental and social justice projects that will end in financial disaster.

The combination of America's cultural revolution and unprecedented artificially low interest rates for many years (which resulted in an extremely overvalued stock market) created fertile ground in which an idea as cockamamie as ESG investing could not just flourish, but become accepted wisdom and the dominant *modus operandi*. It's a woke fad that won't stand the test of time. Unfortunately, investors in the U.S. stock market—especially those whose assets are managed by ESG-focused companies--will suffer a loss of about 85% before that becomes apparent. Don't be one of them.

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