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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The United Nations Global Compact

In recent years, I have tried to explain in this newsletter the number of ways in which today's stock market is not like your father's. During the last century, companies were owned by profit-seeking individuals, and the boards of directors they elected and the management teams they hired could generally be counted on to manage those companies in a way that sought to maximize shareholder value, which over the long term produced an average annual return of about 11%.

Those days are now over. As a result, the risk of shareholders being left holding the bag has never been higher, yet virtually none of them realize this yet. Investors never question the (normally) intuitive common wisdom that equities produce a higher average annual return (especially after inflation and taxes) than any other asset class. Consequently, they remain fixated on less important considerations, such as the word clouds that emanate from the Marriner Eccles Building regarding benchmark short-term interest rates.

Due to the ascent of passive investment strategies (including index funds and exchange-traded funds) and 401(k) plans (which often offer only index funds as investment options), the Big Three investment managers (Blackrock, Vanguard and State Street) now easily have enough proxies to control the board of directors (and thus the management and policies) of virtually every publicly traded company. And it just so happens that the Big Three themselves are dominated by some of the world's most extreme ESG ideologues (for example, Blackrock CEO Larry Fink is on the board of both the World Economic Forum and the Council on Foreign Relations).

Although these institutions have a legal fiduciary duty to manage the many trillions of dollars of wealth with which they have been entrusted for the benefit of its owners, they have thus far been able to get away with brazenly ignoring this duty, especially since the current regime fully supports this misappropriation of shareholder capital (as any good Marxist would).

As I've researched and developed my corporate social credit score in recent months and years, I have constantly been amazed by the *VAST* constellation of well-organized, -funded and -staffed organizations that have advanced, detailed and well-communicated plans for how to "mobilize" (as State Street's CEO describes it) your scarce capital to fund their hare-brained, destructive and tyrannical ideas. Almost every week I discover some such new organization I've never heard of that's part of this global, coordinated World Improver circle jerk. I don't know where the money for all of this comes from, but I'm sure wannabe tyrants such as George Soros and Bill Gates have helped finance it.

As someone who has a keen and professional interest in this subject and has written about it quite a bit, I thought I was familiar with all of the major political threats to my clients' wealth. I was wrong, and shamefully, I didn't discover this new major threat until just recently.

As I poked around on the websites of various companies in recent weeks, I started to see some of them describe what the company was doing to help the United Nations achieve its 17 Sustainable Development Goals, which include (1) No Poverty, (2) Zero Hunger, (3) Good Health and Well-Being, (4) Quality Education, (5) Gender Equality, (6) Clean Water and Sanitation, (7) Affordable and Clean Energy, (8) Decent Work and Economic Growth, (9) Industry, Innovation and Infrastructure, (10) Reduced Inequalities, (11) Sustainable Cities and Communities, (12) Responsible Consumption and Production, (13) Climate Action, (14) Life Below Water, (15) Life on Land, (16) Peace, Justice and Strong Institutions, and (17) Partnerships for the Goals.

Wow, that doesn't seem very ambitious at all. May I humbly suggest some additional goals? (18) No Pain, Discomfort or Distress of Any Kind. (19) Immortality and Eternal Youth. (20) Omniscience for All.

Although many of these goals *sound* fine and unobjectionable on the surface and in isolation, there is *no way* that virtually all of them could ever come close to being achieved, for a number of reasons. First, not only does the world not have anywhere near the necessary capital (even if they misappropriated all of investors' equity capital), the world has never been deeper in debt than it is now. Second, historically, the UN's own policies have generally produced the exact *opposite* results, probably because virtually no one at the UN *has any idea* how to achieve them.

Further, conditions such as poverty, hunger, poor health and inequality will always be with us because they're either relative or simply a fact of life. In fact, a condition like hunger is actually desirable because it provides urgent motivation for people to do something to improve their lives (by serving others) instead of spending their time in leisure. Moreover, since we live in a world of scarcity, there are simply not enough resources to achieve most of these goals.

These goals are really just a Trojan Horse for a massive power grab. Make no mistake: the UN (and its supporters) would very much like to become a one-world government, which would result in unprecedented tyranny on a global scale.

Additionally, the UN has long been notorious as one of the most corrupt organizations in the world. Roughly two thirds of member countries have a corrupt government themselves. So when you put representatives from those countries together in an organization that spends Other People's Money and lacks transparency and accountability, you shouldn't be surprised by the result.

And it's not just financial corruption, either. For many years, I've read a number of articles about how UN peacekeepers sexually abuse the refugees (including children) at the camps that they are supposedly protecting. If you support the UN, you're either willfully ignorant or malevolent.

So what is the UN Global Compact? According to its website, it's "The world's largest corporate sustainability initiative. A call to companies to align strategies and operations with universal principles on human rights, labour, environment and anti-corruption [oh, the irony] and take actions that advance societal goals." Its ambition is to "accelerate and scale the global collective impact of business by upholding the Ten Principles and delivering the SDGs through accountable [to the UN, not to shareholders] companies and ecosystems that enable change."

Do you see how striving to help the UN reach these goals might conflict with companies' legal, fiduciary duty to maximize shareholder value? How do you think this change in the purpose of a corporation might affect the free cash flow and value of the assets that shareholders are left with, and the amount of dividends they receive? How soon do you think these changes will become apparent and too obvious to rationalize or ignore?

As I research which companies have joined this Compact (and there are many), I often note that the company has reduced or eliminated its dividend in recent years. It seems that eliminating global hunger and poverty can consume a lot of free cash flow. Many companies joined this Compact years ago, which may help explain why their median return on invested capital has been in the mid-single digits since then.

The UN says that over 20,000 companies (including most of the Usual Suspects) in over 160 countries have joined the Compact, including many of the ~2,300 dividend-paying companies I track. I'm in the process of identifying which of the thousands of companies I follow have voluntarily agreed to destroy their owners' scarce capital in such an obviously irresponsible way. After corporations gave nearly $83 billion (as of March 2023) of their shareholders' wealth to the (Marxist) Black Lives Matter group (much of which was subsequently stolen), nothing surprises me anymore.

There are a handful of Deal Killers I have identified where I won't invest in a company no matter what; I plan to write about these in a future issue. Voluntarily subordinating the interests of the owners of the company to the UN's disingenuous goals is an obvious warning sign to investors that management is not interested in being a good steward of their capital, so they should not expect a good return.

In conclusion, if recent political and corporate governance trends persist, the high equity returns (as well as the massive government borrowing that helped fund Social Security and Medicare) that helped the Baby Boomers enjoy a comfortable retirement won't be available to Gen X or later generations. In fact, large capital losses from equities could permanently impair much of Gen X's relatively meager savings at a time when they're also saddled by a record amount of federal debt.

I've invested in equities since 1990, and enjoyed it so much (there is no better or easier way to create wealth) that I became a financial planner five years later, and have specialized as an investment advisor since 2008. My whole career is wrapped up in this field, so it has been both stunning and heartbreaking to witness the speed with which the industry has been completely hijacked by True Believers jacked up on World Economic Forum Kool-Aid.

Yes, it is still possible to earn high returns from some stocks, though it's no longer as easy as buying an index fund. (Ironically, the popularity of index funds helped precipitate the current situation.) And you can no longer simply use a quantitative approach (such as investing in small cap value stocks), because in the years ahead, a value stock may well be cheap for a reason (such as management isn't even *trying* to earn a return for shareholders).

One major problem with statists' economic and tax policies is that they simply assume that market participants will just sit there and take the financial abuse and won't change their behavior. This is why, for example, the additional revenue from a higher tax rate never materializes. For some reason, people don't want to work hard or take risks just so they can send a lot of money to the federal government (or in this case, the UN). Savvy investors such as hedge fund manager John Paulson are starting to figure this out and are threatening to go Galt. If you put the weight of the world (or the UN's 17 Sustainable Development Goals) on Atlas' shoulders, he will shrug.

Instead of companies joining the UN Global Compact, they should join an Investor Global Compact, where they promise to manage the company for the benefit of its owners. Perhaps after the next financial crisis (which I have said since 2009 will be the worst in human history) when stock prices are in the gutter and companies are starved for capital and desperate for survival, such a compact will emerge as a way for companies to distinguish themselves by promising investors not to destroy their capital like the previous management team did. Until then, *caveat investor*.

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