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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What's the Purpose of a Corporation?

The worst crime against working people is a company which fails to operate at a profit. ~ American labor leader Samuel Gompers

I have found that in life, it's often helpful to pause, take a step back and ask, "What are we doing here?" The purpose of a corporation should be apparent (to make money for its owners), but in today's upside down world, it's often necessary to clarify the obvious.

In a 1970 essay called "The Social Responsibility of Business Is to Increase Its Profits" (which became known as the Friedman Doctrine or the Shareholder Theory), economics professor Milton Friedman argued that a corporation's "greatest responsibility lies in the satisfaction of the shareholders." And for the vast majority of shareholders, higher profits (or more accurately, free cash flow) and dividends provide the most satisfaction.

Why do shareholders matter? Because they own the company. Why are they the owners of a company? Because they provide the (scarce) initial capital that a company needs for property, plant, equipment, etc. They are at risk of losing their entire investment (and eventually, every company goes bankrupt). And when it comes to paying the company's liabilities (to suppliers, employees, governments, bondholders, etc.), shareholders get whatever is left over (if anything). So ownership of the company is what they demand in return for voluntarily placing themselves in such a risky situation.

In 2019, there was a little-noticed revolution against the Shareholder Theory when the Business Roundtable (a group of left-of-center CEOs from mostly large and moribund companies) issued a white paper that sought to redefine the purpose of a corporation away from shareholders and toward a group of *stakeholders* (which sounds similar to "shareholders," so other stakeholders must have a similar claim on a corporation, right?).

Now, instead of maximizing shareholder value, the purpose of a corporation would be to provide various benefits to a group of five different stakeholders. Shareholders were the last "stakeholders" mentioned, and instead of receiving say quarterly profits and dividends, the corporation was to provide them with "long term value." In other words, keep investing in index funds, paying whatever price Mr. Market sets for *all* companies, regardless of how they're being managed or squandering the wealth of their shareholders. Keep letting Blackrock, State Street and Vanguard vote your proxies. Forget about the poor earnings reports or quarterly dividends you used to receive, because one day you'll receive "long-term value."

In retrospect, this was the first major coup of the Great Reset, and what allowed its massive malinvestment and misallocation/misappropriation of resources to occur. By the time Mom & Pop investors figure out this unprecedented global scam, their capital will be "permanently impaired" (as they say) and capitalism will be dead. It was a brilliant political strategy by the Left.

Recently I wrote about the United Nations Global Compact, which is a group of hundreds of corporations (many if not most in Europe) that have agreed to help the U.N. meet its 17 Sustainable Development Goals. Again, if you're an investor, you should ask yourself, "What are we doing here?" Maximizing shareholder value is one thing, but trying to help the U.N. reach its goals is something completely different (especially since virtually all of those goals are at odds with free markets). As a shareholder, what do you think your return on investment would be for helping the U.N. reach its goals?

As I've worked on my corporate social credit score in recent weeks and months, I've come across hundreds of companies that have joined (and are funding, with shareholder money) a seemingly endless array of ESG World Improver nonprofits. I come across a new such group about every other week. The lengths that these companies go to (many voluntarily, many required by law) to measure, collect and report various ESG-related metrics is astonishing and must certainly distract from the bottom line of profitability (and thus financial survival).

Now to be fair, not every investor wants the companies he/she owns to maximize shareholder value, especially today. There are an unprecedented number of Do Gooders, busybodies, guilty liberals, misinformed climate alarmists, delusional True Believers, etc. And that's OK, as long as they put their money where their mouth is so they have skin in the game and will suffer the consequences if they make poor decisions. I think what Friedman really advocated was that corporations should abide by the wishes of the shareholders, and at the time, virtually all shareholders wanted to maximize shareholder value.

I believe we're now past Peak ESG. Given the recent reversal by both some corporations and society at large away from ESG and back towards pragmatic conservatism, it is time for investors to demand to know what each corporation thinks its purpose(s) should be. The problem that has arisen in recent years is that the vast majority of investors still believe that they companies they own are still trying to maximize shareholder value, just like that always have. But that is definitely no longer the case for most companies, and if this assumption/misunderstanding is not addressed in a forthright manner soon, it will be a major cause of one of the worst stock market crashes in history.

If investors organized and demanded to know where each company stood, some would would say their goal is to maximize shareholder value. Investors would bid up those shares, increasing shareholders' return and lowering those companies' cost of capital. Many companies would continue to say that their purpose is to benefit a range of stakeholders (with shareholders last in the pecking order) and/or to achieve the goals of the United Nations, the World Economic Forum, etc. Investors would bid down the shares of those companies, resulting in losses for the shareholders who were foolish enough to invest in them and increase those companies' cost of capital. Many companies would refuse to declare their intentions and would find their stock somewhere in the ambiguous middle.

Regular (profit-seeking) investors should start a Shareholders Global Compact, a group of companies that have explicitly declared that their goal is to maximize shareholder value (of course by providing great goods and services that customers want, and by paying employees a competitive wage to provide them). Or they could start a group of shareholder-friendly CEOs called the Shareholder Roundtable. I'm surprised that such a group (apparently) doesn't already exist.

One of the most obvious people to head up such a group would be Vivek Ramaswamy, but he'll be too busy with DOGE for at least a couple of years. Maybe an accomplished professional investor who has a long history of shareholder advocacy, or someone like CNBC reporter Rick Santelli (one of whose rants sparked the Tea Party movement). There are many potential options, and I think millions of investors would quickly get on board, because their capital has never been more at risk.

In short, it's time for investors to explicitly ask corporations, “What are we doing here?”

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