

# STRATEGIC PORTFOLIO BALANCE<sup>sm</sup>

Issue 65

## Investment Discipline

2015.10.19

This is our client communication newsletter and it is researched, written and distributed by:

### BellinghamFinancialPlanners.com

Ronald Scott Colson, CFP®, MBA, President

Colson Financial Group, Inc., Registered Investment Advisor

28 years of excellence! We serve our clients with:

- Fee-only financial planning (zero sales bias);
- Fee-based investment management (zero commissions);
- Less than 1% is invested in stocks of fossil fuel companies; and,
- Fiduciary services (keeping your best interests foremost).

4740 Austin Court, Bellingham WA 98229-2659

US/Canada Toll Free: 800.530.3884 Office: 303.986.9977

Web Site: <http://www.ColsonFinancial.com/> eMail: [Ronald@ColsonFinancial.com](mailto:Ronald@ColsonFinancial.com)

### IN THIS ISSUE

### PAGE

How to Divest	(Climatefest 2015 Presentation.)	1
Retirement Funding Sources	(Where to take current withdrawals.)	9
Current Mortgage Rates	(US national averages.)	10
Web Links	(Check advisor's web site for updates.)	10
Planning and Investment Advisory Services	(What we do.)	11
The Fine Print	(To satisfy the lawyers.)	11

### How to Divest

I was honored to have been a presenter at Western Washington University's Climatefest 2015 on Sunday, 2015.10.18. I shared the stage with numerous other experts, climate activists and Lummi Indian musicians and speakers. (The Lummi Nation resides on Cherry Point. That is where big coal interests want to build North America's largest coal export facility and to usurp the Lummi treaty rights dating back to the 1850's.) Booths in the lobby included two solar panel manufacturers, renewable energy installers, the local power company advocating green energy sources, and other renewable energy firms. Videos were shown from environmental author Naomi Kline and 350.org's chairman Bill McKibben. The program began at 10 AM and ended at 5 PM. After that, presenters and speakers made themselves available at restaurants and breweries around Bellingham. This allowed individuals to continue the climate conversations and to obtain more information about those topics that most

interested them. (I was fortunate to have been assigned to Chuckanut Brewery, one of my favorites!)

I have been literally overwhelmed with requests for transcripts of my presentation. To fulfill those requests, I have chosen to devote this month's newsletter to the topic that I presented. My actual verbal presentation had to be slightly abbreviated due to the time constraints that were imposed on me by festival organizers. But it was based upon this slightly expanded version.

*Disclaimer: Please keep in mind that the data presented is obtained from numerous public sources as well as subscription services. Although the data is assumed to be accurate, there are no guarantees that it is. All investments involve risk. Principal losses occur. A current prospectus for any security presented is available online for your review. There are no guarantees as to the performance of any specific security or any asset allocations discussed during the presentation. A properly designed investment portfolio includes many different types of companies in different industries and in different countries. Never put all of your investment "eggs" in just a few investment vehicles. Proper diversification is the most prudent way to reduce your risk. With those disclaimers in mind, let's begin.*

### "How to Divest Fossil Fuel Securities From Your Investment Portfolio."

I will begin my presentation by providing participants with an understanding of what drives stock prices.



#### What Drives Stock Prices?

- **Fundamental Drivers** – A company's stock price is based upon business metrics such as their projected future profitability, management competence, market share, industry growth rate, business life-cycle stage and other metrics (EPS, ROE, ROI, etc.).
- **Emotional Drivers** – Investor fear or greed can temporarily overwhelm fundamental analytics. "Don't fight the ticker."

#### How Do Analysts Determine What to Buy and What to Sell?

- **Fundamental Analysis** uses a company's business metrics (listed above) in an attempt to calculate the fair market value (FMV) of that company's stock. When emotional drivers cause the actual price of the stock to be higher or lower than FMV, trades are executed to profit from those differences.
- **Technical Analysis** uses the fluctuating patterns of a company's historical stock price in an attempt to forecast future repeating patterns. In my opinion, it is not much different from trying to foretell your future by analyzing the pattern of lines on the palm of your hand! Technical analysis should be ignored by the long-term investor.

The next concept is a description of how stock analysts determine the "Fair

Market Value” (FMV) of stocks. Every industry has its own unique set of data input criteria that are used to calculate FMV. For example, one of the numerous considerations when analyzing automobile manufacturers is how many of last year’s cars are parked on dealers’ lots when the next year’s models are introduced. A large inventory of cars sitting on dealers’ lots will depress the prices on new models, cut into profits and reduce the price of the stock of that particular auto manufacturer. If the calculated FMV is lower than the actual current stock price, an investment manager will either sell the stock, short the stock, buy a put or sell a call. (Don’t be concerned if the concept of stock options is fuzzy to you. Explaining options is not the objective of my presentation.) If the calculated FMV is higher than the actual current stock price, the investment manager will buy the stock, sell a put or buy a call. Either way, the investment manager attempts to profit by any perceived discrepancy between the FMV and the actual current price of the stock.

With that foundation, I will explain how “Fair Market Value” (FMV) is calculated for the stocks of companies in the extractive industries, including coal, oil, natural gas, mining, etc.



### The Fossil Fuel Industry “Rat Hole”

Investopedia Definitions:

- **Proved Reserves** – A classification used in mining sectors that refers to the amount of resources that can be recovered from the deposit with a reasonable level of certainty. Proved reserves is a common metric quoted by companies such as oil, natural gas, coal and other commodity-based companies.
  - <http://www.investopedia.com/terms/p/proved-reserves.asp>
- **Reserve Replacement Ratio** – A metric used by investors to judge the operating performance of an oil and gas exploration and production company. The reserve-replacement ratio measures the amount of proved reserves added to a company’s reserve base during the year relative to the amount of oil and gas produced. During stable demand condition environments a company’s reserve replacement ratio must be at least 100% for the company to stay in business long-term; otherwise, it will eventually run out of oil.
  - <http://www.investopedia.com/terms/r/reserve-replacement-ratio.asp>

Here is the “tanary in the coal mine:”

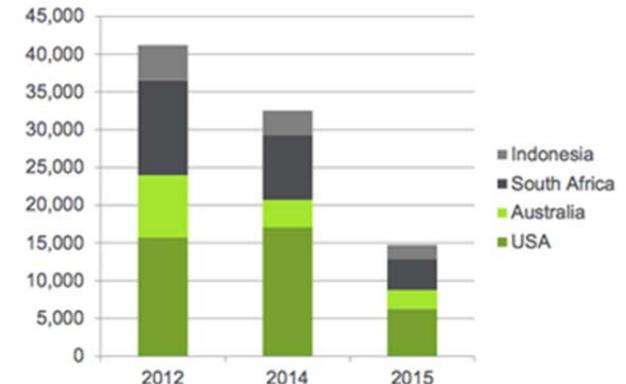
**It is estimated that as much as 80% of the recent price of fossil fuel stocks is based upon their proved reserves and their reserve replacement ratios!**

In the past few years, stock analysts have come to realize that the proved reserves of coal companies, the dirtiest of all fossil fuels, must remain in the ground if we are to avoid catastrophic climate change. Proved reserves had been considered to be like “cash in the bank,” increasing the coal companies’ balance sheets and artificially propping up their stock prices. When those proved reserves must be left in the ground rather than extracted, they become “stranded assets,” causing a plunge in the bottom line of the balance sheet, a major factor

in the recent collapse of coal companies’ stock prices.

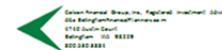


Figure 100. Market Cap of Listed Coal Companies Under Citi Research Coverage



Source: Citi Research

Oil will always be pumped out of the ground and refined into its multiple components to produce lubricants, plastics, pharmaceuticals, etc. However, what will end is the wasteful and toxic burning of gasoline. That will reduce the demand for oil and further depress the stock prices of oil-related companies. Natural gas “fracking” and its distribution through hundreds of thousands of miles of leaky pipes will also have to end. This is because methane is a much more powerful greenhouse gas than carbon dioxide. As demand for natural gas drops, the stock prices of those companies will also collapse. The “smart money” knows this and has been actively divesting from fossil fuel stocks.



AS OF SEPTEMBER 2015, 436 INSTITUTIONS AND 2,040 INDIVIDUALS FROM 43 COUNTRIES REPRESENTING \$2.6 TRILLION IN ASSETS HAVE COMMITTED TO DIVEST FROM FOSSIL FUELS\*



Click here to pledge now and join them!

Saudi Arabia has huge underground proved reserves of light, sweet, crude oil. Yet in what can only be considered as the ultimate irony, even the Saudi Royal Family has divested fossil fuels from their extensive investment portfolio.



### Guess who else is divesting.

*"The stone age came to an end not for lack of stones and the oil age will come to an end not for lack of oil."*

Sheikh Yamani, former Saudi Oil Minister.

Kingdom Holding Company, The World's Foremost Value Investor <http://www.kingdom.com.sa/>

"Welcome to the online home of Kingdom Holding Company - one of the world's most successful diversified investment holding companies. Based in Riyadh, Saudi Arabia, Kingdom Holding Company (KHC) is a publicly listed company on the Tadawul (Saudi) Stock Exchange. KHC is composed of a select team of experienced investment specialists directed by HRH Prince Alwaleed Bin Talal, one of the world's leading investors. KHC is internationally renowned for its interest in both high performance global brands and strategic regional interests. The company utilizes detailed selection criteria to identify optimum opportunities to invest and realize value from undervalued or underperforming assets nationally and internationally, appreciating potential for the long term."

#### Largest investment holdings of Kingdom Holding Company:

- Citigroup
- News Corp
- eBay
- TimeWarner
- EuroDisney
- Apple
- Four Seasons Hotels and Resorts
- Twitter
- Motorola

Big-dollar investors have always been able to instruct their Registered Investment Advisors to eliminate fossil fuel stocks from their multi-million dollar investment portfolios. But divestment is just beginning to become more main stream for the average investor. Unfortunately, there are currently only a few resources available to the average investor to assist with the task. But the following list of fossil fuel-free investment resources is growing every month.

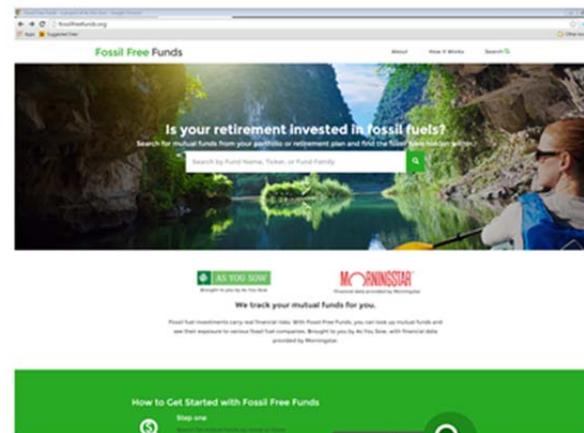
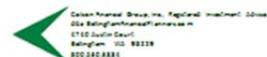


FOSSIL FUEL-FREE INVESTMENT MANAGEMENT IS BECOMING MAINSTREAM!

- [www.BellinghamFinancialPlanners.com](http://www.BellinghamFinancialPlanners.com)
- [www.ColsonFinancial.com](http://www.ColsonFinancial.com)
- [www.DivestInvest.org](http://www.DivestInvest.org)
- [www.Divestor.org](http://www.Divestor.org)
- [www.FossilFreeFunds.org](http://www.FossilFreeFunds.org)
- [www.FossilFreeIndexes.com](http://www.FossilFreeIndexes.com)
- [www.GoFossilFree.org](http://www.GoFossilFree.org)
- [www.GreenAlphaAdvisors.com](http://www.GreenAlphaAdvisors.com)
- [www.GreenAmerica.org](http://www.GreenAmerica.org)
- [www.GreenCentury.com](http://www.GreenCentury.com)
- [www.NorthernTrust.com](http://www.NorthernTrust.com)
- [www.TrilliumInvest.com](http://www.TrilliumInvest.com)

NOTE: These links do not comprise an exhaustive list of all investment advisors currently offering fossil fuel-free investment management and investment advice. No endorsement is intended or implied by inclusion on this list. Consult your advisor regarding the suitability of these links to your own investment strategies and accounts.

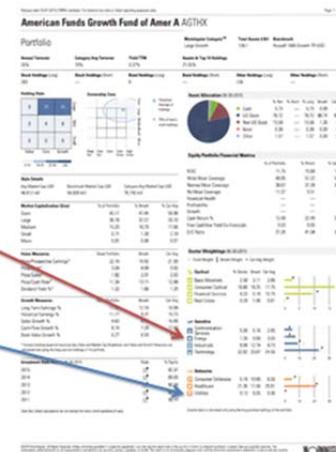
The following web site allows you to input the ticker symbols of the mutual funds that are currently available through your employer's retirement plan. The report that is generated will list the percentage of fossil fuel stocks owned by those mutual funds. This can be utilized to persuade your employer to add fossil fuel-free investment options to your retirement plan.



The underlying database that provides this information is maintained by Morningstar.com. The applicable sector that you should minimize is "Energy." (The "Utility" sector includes power companies that utilize everything from coal to wind turbines. Utilities are slowly converting from coal and natural gas to renewables like wind and solar. Therefore, it may not be advantageous to avoid making investments in the Utility sector.)



#### SAMPLE MUTUAL FUND



Energy Sector weighting in AGTHX is currently 7.39% of the total portfolio.

Utility Sector weighting in AGTHX is currently 0.13% of the total portfolio.

www.Morningstar.com

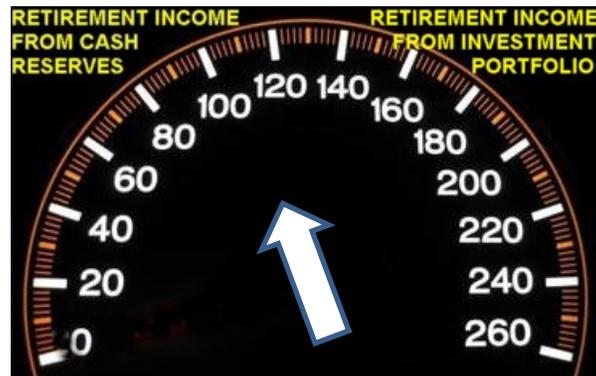


## Retirement Funding Sources

**Theory:** By utilizing non-correlated retirement income funding sources from which withdrawals are taken relative to the strength of their mutual divergence, it may be possible to extend the duration of the income stream being provided by a portfolio of securities so managed.

**English Version:** It is our recommendation that you accumulate between one and three-years worth of basic living expenses and hold them in cash reserves. *(Even cash reserve accounts should be properly structured. We'll help!)* During periods of stock market weakness, you should avoid liquidating investments at a loss. Use cash instead. *(You must stay invested if you are to have any chance for recovery.)* During periods of relative stock market strength you should fund your retirement income needs by taking withdrawals from your investment portfolio while replenishing your cash reserves for the next time when *(not if)* the stock market suffers another significant correction. *(Of course, it is essential to skillfully structure and effectively manage your investment portfolio. We'll do that!)*

### CURRENT RECOMMENDED SOURCES FOR WITHDRAWALS TO FUND RETIREMENT INCOME



#### LEGEND

- 0 - 87: Stop all withdrawals from investment portfolio. Use cash reserves.
- 88 - 173: Blend withdrawals from investment portfolio and cash reserves.
- 174 - 260: Take withdrawals from investment portfolio. Replenish cash.

If you like the concept of maximizing the lifespan of your retirement withdrawals but you do not wish to take on the responsibility yourself, please consider enrolling in our Strategic Withdrawal Management<sup>sm</sup> (SWM<sup>sm</sup>) service. We will deal with the management logistics while you deal with your golf swing.

## Current Mortgage Rates

**HOME MORTGAGE:** The following are the national averages of mortgage rates (source: Bloomberg Business). Because mortgage interest rates change throughout each business day, these recent examples will not necessarily be applicable when you apply for your next mortgage. They are provided for illustrative purposes, only.

### RECENT CONVENTIONAL CONFORMING FIXED MORTGAGE INTEREST RATES

30 Year Fixed Rate Conventional/Conforming, 30-Day Lock		15 Year Fixed Rate Conventional/Conforming, 30-Day Lock	
Current	Previous Month	Current	Previous Month
3.80%	3.89%	2.86%	2.98%

- There are several other factors that affect the rate of your loan. Such factors include the state in which the mortgaged property is located, loan-to-value, FICO credit scores, cash-out refinance, high-balance loans, variable-rate loans, government programs (such as FHA or VA loans), non-owner occupied, self-escrow of property taxes and homeowner's insurance, etc.

You will need to provide your independent mortgage broker with the following documents when applying for a loan:

- Signed and dated loan application and mortgage documents.
- Most recent 2 month's pay stubs.
- Most recent 2 years W2's and tax returns.
- Most recent 2 months statements on all financial accounts such as checking, savings, retirement, stocks, etc.
- Property/casualty/liability insurance carrier.
- Official military, divorce, separation, child support documentation (if applicable).

## Web Links

Full disclosure of all the services we provide and all the fees we charge can be viewed at the following link to our *SEC Form ADV Part 2A*:

<http://www.colsonfinancial.com/sites/default/files/users/colsonfinancial/pdf/ADVnew.pdf>

You may view our privacy policy at the following link:

[http://www.colsonfinancial.com/sites/default/files/users/colsonfinancial/pdf/BBB\\_PrivacyPolicy.pdf](http://www.colsonfinancial.com/sites/default/files/users/colsonfinancial/pdf/BBB_PrivacyPolicy.pdf)

You may review our fee schedule at the following link:

<http://www.colsonfinancial.com/sites/default/files/users/colsonfinancial/pdf/FeeSchedule.pdf>

You may log in to view your account(s) at the following link:

<https://www.trustamerica.com/liberty/desktop/cfi>

Please contact our office if you prefer to receive these documents via snail-mail.

## PLANNING AND INVESTMENT ADVISORY SERVICES

When we work with individual clients, we focus on two areas:

- **“Fee-Only” Financial Planning:** Together we calculate what you earn and what you spend (cash flow), what you own and what you owe (net worth), and we structure a course of action for the successful achievement of your financial goals. We have no broker-dealer affiliation. We do not sell any products. We earn zero commissions and we receive zero 12b1 fees.
  - **“Fee-Based” Investment Management:** We provide affordable professional investment management with honesty, integrity and exceptional fiduciary care. Our portfolios are designed to be 99%<sup>+</sup> fossil fuel-free. Our compensation amounts to a small fraction of a percent of the total of all of your family’s accounts. We strive to earn investment returns at a risk level that you can accept while keeping the total of all expenses at a minimum.
- A) We avoid all financial products that pay commissions. Product sponsors charge higher expenses in products that pay commissions. Higher expenses result in poorer investment performance.
- B) The cost for our investment advice is fully disclosed, in actual dollars, not buried somewhere in a prospectus as “basis points.”
- C) We dispel the myths and misconceptions of any anecdotal advice that may be dispensed by your well-intentioned friends or relatives.

We believe that your financial success will be better achieved with ongoing professional investment management driven by an unwavering discipline to remain focused on your goals. If you have neither the time nor the desire to be a “do-it-yourselfer,” please allow us to be your fiduciary. We will always place your best interests ahead of our own.

**THE FINE PRINT:** Subscriptions to this newsletter are available for \$120.00 (US funds) per year. This newsletter does not accept advertising. No compensation of any kind is accepted from any source for the topics that are presented. Although all information is obtained from sources deemed to be reliable, there are no guarantees as to the accuracy. The opinions expressed by the author are not guaranteed. You are strongly urged to consult Colson Financial Group, Inc. prior to your implementation of any of the strategies or recommendations that are presented. Always consult a CPA for income tax advice. Always consult an attorney for legal advice. There are no guarantees, either expressed or implied, as to the performance of any investments or strategies presented. All investments involve risk. Capital losses can and do occur. Read a current prospectus for each investment before investing money. The Advisor is directly registered with the divisions of securities in the states of Colorado, Oregon, Texas and Washington. The Advisor also does business in numerous other states where registration is not required. You may find more information by referring to Firm IARD/CRD number 109704 at the following link:

[http://www.advisorinfo.sec.gov/IAPD/Content/Search/iapd\\_OrgSearch.aspx](http://www.advisorinfo.sec.gov/IAPD/Content/Search/iapd_OrgSearch.aspx)

Ronald Scott Colson, CFP®, MBA, President, is registered as an Investment Advisor Representative. (Refer to IARD/CRD U-4 number 1715364.) Ronald Scott Colson, CFP®, MBA, President maintains CFP® license number 046350 that was issued 1993.03.15 by the Certified Financial Planner Board of Standards. For complete details about all services and fees, please refer to the Advisor’s “SEC Form ADV Part 2A” and other disclosures available on the Advisor’s web site:

<http://www.ColsonFinancial.com>