

STRATEGIC PORTFOLIO BALANCEsm

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- *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).*

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Divestment from Fossil Fuels

(The following is the transcript of my presentation given to the students and faculty of Western Washington University. Their Endowment Fund already has an ongoing, long-term relationship with a very qualified Registered Investment Advisor, so my goal is not to replace that relationship. My goal is simply to encourage them to instruct their Advisor to remove all fossil fuel stocks from their investment portfolio. If successful, their divestment will result in literally \$ millions that will no longer be at risk of loss due to the inevitable collapse of the fossil fuel industry. The Board's dilemma is that members of the fossil fuel industry regularly make contributions to the university's Endowment Fund, contributions that the Board is hesitant to lose. My strategy is to convince the Board that the avoidance of portfolio losses will ultimately offset any loss of contributions from the fossil fuel industry and that the goodwill generated by

divesting will actually attract more Endowment contributions from a broader base of supporters. The following is the outline of my presentation.)

“Ladies and Gentlemen: I appreciate the opportunity to state the case for what I believe will be the single most important investment decision that you will make: Your Endowment’s divestment from fossil fuels. I will address the technical arguments regarding long-term loss avoidance later in this presentation. Initially, I hope your goal will be to join with many others to reduce the power and influence of the fossil fuel industry over national and international governments and economic, trade and environmental policy.

“By pressuring the fossil fuel companies we are taking away their ‘social license’ to operate. As explained by Oxford University when they made their decision to divest, ‘The outcome of the stigmatization process poses the most far-reaching threat to fossil fuel companies and the vast energy value chain.’

“In order to be effective, divestment does not need to reduce total investment in a company or cause the bankruptcy of any corporation. Divestment will not succeed alone as a strategy or tactic. When you sell, someone else buys.

“But our success to date includes the mobilization of millions of people and hundreds of institutions. This is the fastest growing divestment campaign in history! It is a global campaign involving faith institutions, pension funds, governments, universities and many, many individuals. Thus far, \$ billions have been divested putting the fossil fuel industry on the defensive. We have gained the support of global media from *The Guardian* to the *New York Times*.



*“We must stop
climate change
...and we can
if we use
the tactics
that worked
in South Africa.”*

Archbishop Desmond Tutu



“Divestment is an entirely rational market approach.”

Mark Moody-Stuart, former Chairman, Royal Dutch Shell

“There are a growing number of studies that have examined the impact on risk and performance for fossil fuel-free investing. MSCI states that ‘The energy sector has been consistently among the ‘most risky’ sectors in the global economy since 2005. They state further that, ‘Fossil fuel divestment has the potential to reduce overall portfolio risk because of energy sector volatility.’

“In its study, *Fossil Fuel Divestment: Perspectives After the Oil Bust*, research firm Advisor Partners states that, ‘Simulated performance of the full divestment portfolio was virtually indistinguishable from that of the S&P 500® Index over the 25 year period.’ Highlighting the fact that past portfolio performance would not have been negatively impacted by divesting, Advisor Partners further stated that, ‘Divestment appears to have limited overall impact’ and ‘Investors with long time horizons may be comforted by these results.’ Their point is that we give up nothing by divesting. However, as I will explain in subsequent paragraphs, divesting now will probably improve your investment performance in the future as we transition away from fossil fuels.

Offshore oil drilling are costly projects for shareholders that also pose dangers for the environment and nearby communities.

Photo: BP’s Deep Horizon oil spill.



“Fossil fuel companies are wasting dividends by spending more and more money to develop extreme projects such as offshore, Tar Sands and Arctic oil drilling. According to Carbon Tracker, ‘Capital could easily be wasted developing new high cost projects’ instead of returning it to shareholders as dividend payments.

“In 2013 the top 200 fossil fuel companies (by reserves) spent \$674 billion in capital expenditures but paid-out only \$126 billion in dividends to their shareholders.

“Divesting may reduce your long-term losses. If governments move to restrict carbon emissions, the reserves of coal, oil and gas held by many fossil fuel companies may become devalued or be reclassified as ‘stranded assets.’

“The risks are being widely acknowledged. *‘We are staring down a climate bubble that poses enormous risks to both our environment and economy.’* -- Henry Paulson, Jr., former Secretary of the Treasury.

“Chartered Financial Analysts (CFA’s), the research wonks of my industry, attempt to calculate the fair market value of fossil fuel company stocks by analyzing, among other factors, the *proved reserves* that are capitalized on fossil fuel company balance sheets as current assets. Additionally, CFA’s utilize the *reserve replacement ratio* to analyze the ongoing productivity of the company.

“*Definition:* ‘Proved reserves’ is 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>

“*Definition:* The ‘reserve replacement ratio’ is 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>

“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! When (not if) we collectively wean ourselves off of fossil fuels, the stock prices of fossil fuel companies will collapse!

“‘Socially Responsible Investment’ (SRI) screens have been available for many years. Most people assume that avoiding fossil fuel company stocks in their SRI portfolios is an inherent part of socially responsibility investment screens. But that is not the case. ExxonMobil is considered ‘socially responsible’ and passes many SRI screens. This is because Exxon provides numerous employee benefit programs such as comprehensive life/health/disability insurance, paid maternity leave, weight loss programs, etc. While those are important benefits to any employee, they do not negate the reality that Exxon’s fundamental business model is heavily contributing to our worsening global climate. They are causing changes that will ultimately endanger the survival of all life on this planet!

“Although screens to exclude fossil fuel companies from investment portfolios are a relatively new phenomenon, more tools to do so are being added to our

quiver every month. One of the better tools available is the ‘Carbon Underground 200,’ an annually updated listing of the top 100 public coal companies globally and the top 100 public oil and gas companies globally, ranked by the potential carbon emissions content of their reported reserves. The Carbon Underground 200 list is maintained by Fossil Free Indexes, LLC.

“Other investment screens include ‘Low Carbon Funds.’ These are subjectively defined and not necessarily fossil fuel free. Diversified funds often include fossil fuel companies unless their Morningstar Energy Sector is listed as 0.00%. Single sector funds (pharmaceuticals, technology, etc.) are unlikely to hold fossil fuel stocks unless they are specifically an energy sector fund.

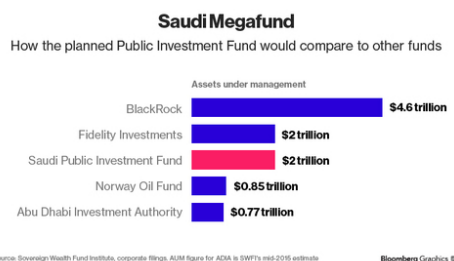


Norway’s government pension fund is currently the largest sovereign wealth fund in the world

In 2014, the fund divested from 53 coal companies around the world!

“The ‘smart money’ has been divesting for quite some time. Norway’s government derives the largest single percentage of their income from the sale of crude oil. They have invested much of that money in their own sovereign wealth fund to buffer the volatility in the oil sector. In 2014, the fund divested from 53 coal companies around the world.

“Saudi Arabia will create a \$2 trillion fossil fuel-free megafund to plan for funding our public works in the ‘post-oil era.’” Mohammed Bin Salman, Deputy Crown Prince.



“Kingdom Holding Company invests the Saudi Royal Family’s personal wealth. For many years they have not held any fossil fuel company stocks specifically so that they can diversify away from Saudi Arabia’s total reliance on oil income. It was recently announced that Saudi Arabia will be issuing an Initial Public Offering (IPO) to allow non-Saudi’s to buy up to 5% of Saudi Aramco, their state-owned oil company. The proceeds from that stock sale will be used to set up a \$2 trillion sovereign wealth fund that will be fossil fuel-free, specifically to

plan for the funding of Saudi public programs in the ‘post-oil era!’ Even Saudi Arabia realizes that they must end their addiction to oil.

“The Rockefeller Brothers Fund, a non-profit investment firm devoted to ongoing philanthropy, was originally created using the huge profits generated for years by Standard Oil Company, a company that was co-founded by John D. Rockefeller. In 2014, the Rockefeller Brothers Fund announced their intention to fully divest all fossil fuel stocks from their \$860 million fund!



“Yes, the planet got destroyed. But for a beautiful moment in time we created a lot of value for shareholders.”

“The list of major institutions that are divesting from fossil fuels continues to grow. They currently number in the hundreds and will soon be counted in the thousands! It is my hope that the Endowment Fund for Western Washington University will be counted among them. Other presentations this evening have focused on the socially responsible reasons for divesting from fossil fuels. I hope that I have sufficiently made the case for WWU to divest from the perspective of a prudent investment manager. Doing so will be beneficial for your students, for the university and for the sake of Planet Earth. Thank you!”

Credit Bureau Information

(This article was included in my previous newsletter. By popular demand, it has been included in this one, as well.)

Identity theft is the fastest growing internet crime. Unraveling the mess it creates can be expensive and time-consuming. Buying identity theft insurance (LifeLock, etc.) is expensive and only awards you a cash settlement. It does not really help you to recover after suffering the crime. You still have to do all of the work yourself, anyway. But there is something that you can do that is free and very powerful: Fraud Alert and Credit Freeze.

You can obtain additional information from the FTC and the three nationwide credit bureaus about fraud alerts and security freezes. You can add a fraud alert to your credit report file to help protect your credit information. A fraud alert can make it more difficult for someone to get credit in your name because it tells creditors to follow certain procedures to protect you, but it also may delay your ability to obtain credit.

You may place a fraud alert in your file by calling just one of the three nationwide credit bureaus. As soon as that bureau processes your fraud alert, it will notify the other two bureaus, which then must also place fraud alerts in your file. In addition, you can visit the credit bureau links below to determine if and how you may place a security freeze on your credit report to prohibit a credit bureau from releasing information from your credit report without your prior written authorization.

Equifax, PO Box 740241, Atlanta, GA 30374-0241. 800.685.1111.
https://www.freeze.equifax.com/Freeze/jsp/SFF_PersonalIDInfo.jsp

Experian, PO Box 9532, Allen, TX 75013. 888.397.3742.
http://www.experian.com/consumer/security_freeze.html

TransUnion, PO Box 2000, Chester, PA 19022. 800.916.8800.
<http://www.transunion.com/personal-credit/credit-disputes/credit-freezes.page>

For more information about preventing identity theft in all states (except Maryland and North Carolina), visit the Federal Trade Commission's website:
www.ftc.gov

If you live in Maryland, contact the Maryland Attorney General, Consumer Protection Division, 200 St. Paul Place, Baltimore, MD 21202. 410.528.8662.
www.oag.state.md.us/idtheft/index.htm

If you live in North Carolina, contact the North Carolina Office of the Attorney General, 9001 Mail Service Center, Raleigh, NC 27699-9001. 919.716.6400.
<http://www.ncdoj.gov/Crime.aspx>

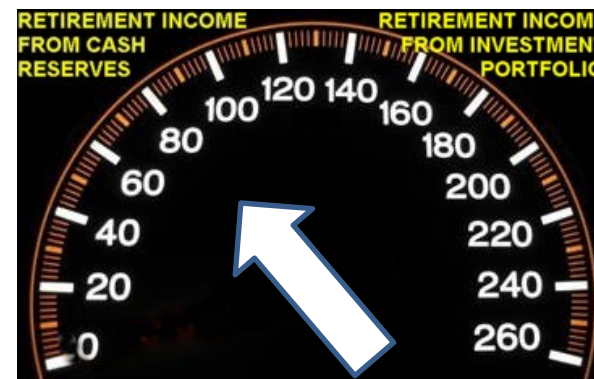
Remember that you will have to unfreeze your credit before applying for a credit card, a car loan or a mortgage. Then re-freeze your credit report afterwards.

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 Managementsm (SWMsm) service. We will deal with the management logistics while you play golf!

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
3.63%	3.69%	2.72%	2.78%

- 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

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%+ 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.

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http://www.advisorinfo.sec.gov/IAPD/Content/Search/iapd_OrgSearch.aspx

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