SUMMER 2017

Hansen's Advisory Services, Inc.

Investing in companies that give a hoot.

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Derivation of a Derivative

Derivatives are headline financial news in times of market volatility and can seem very complicated. It may feel like this type of investment is in the air somewhere floating around in the markets.

Stocks prices are reported and traded on an exchange and can be seen by all. Derivatives are traded over the counter or just between the buyer and seller. This makes it difficult to see what derivatives are being bought and sold.

The first derivatives were created for the farmer. Since crop production each year is not stable, the farmer needs a way to sign a contract with the buyer to be paid so much for this crop when it is harvested whether the corn, wheat, soybeans, etc. are plentiful or scarce. This seems like a rational way to allow the farmer to survive the up and down years. This agreement is called a futures contract.

Futures contracts have gone beyond the original purpose of guaranteeing prices at a certain time for agricultural products to all types of commodities including gold and silver. Betting on the future has expanded its scope to betting on the bet on the future.

There is a difference between buying shares of a company and betting on whether the company's share price will go up or down. The stock certificate says you own so many shares of a company. Your ownership provides capital to the company to make it successful. You are buying these shares because you think the company will grow and prosper. It's rather like Heifer Inc. You are not the farmer who owns the cow directly and can touch and feed it. You buy the paper (stock certificate) that says you own shares in how much money it provides the owner. You want the owner to be prosperous.

Now if you wish to bet on whether the cow or the company will do well, you could buy a contract saying the worth of the stock certificate will go up or down. That is a bet on the stock certificate's value. You are not betting on the real cow or company but on a piece of paper's worth. This is a derivative. It doesn't have to stop there. Someone else could sell you insurance to pay for a loss if your guess on the price was wrong. Then the money you would lose will be covered by an insurance contract on the bet. Someone could also put these bets together with other bets and create a certificate that says someone owns a share of the pool created by gathering all these bets into a single investment. This is what happens with mortgages. Your mortgage is sold to an investment that is a pool of many mortgages.

One cow or one company could create multiple derivative instruments. You can see that this will become quite complicated and difficult to track. The derivative market does not lend itself to transparency and therefore causes buyers to be in the market just to make money and not to provide a healthy growth prospect in the markets. It also lends itself to more money held in paper betting on paper. If you could chart all these contracts and connect them to each other, you may find that one share's value was bet on multiple times and some people lost money and others had a gain. But none of them added value to the company by providing growth.

If we wish to take actions that provide clarity and straightforward investing in our human and natural resources, betting will probably not be the way to accomplish that goal.

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Inside!

The most common way people give up their power is by thinking they don't have any.
— Alice Walker

Did You Know?

Mental Health Benefits of Going Green

If you think being environmentally conscientious makes you feel good—turns out that mental health professionals agree with you. In Katie O'reilly's article for Sierra Club, "Mental Health Benefits of Going Green," she asks some psychology experts to explain why and here are some insights:

- You get a greater sense of meaning and purpose when you are mindful of your resources (as in recycling containers or composting food waste), points out Dr. Jared Scherz, a NJ therapist who says this "sense of worth" becomes the "best antidote" to anxiety and depression. Scherz also says that spending time outside in nature helps us develop our ability to better listen to our bodies' needs, so we make healthier choices. When we witness "the fortitude and resiliency of nature," we find it easier to connect to those qualities within our own bodies.
- The connections we establish by being in nature helps combat the feeling of isolation. Jodi Aman, a Rochester, NY psychotherapist takes patients to lie down on the earth, try edible wild plants, and hug trees, so "when [they] see things from a larger point of view, [their] small problems don't seem so bad."
- When you make efforts to benefit the planet, like bicycling, growing your own vegetables, or saving rainwater, you gain self-trust. "Doing something to care for the earth helps *you* feel more cared for," says Rachel Kazez, a Chicago licensed clinical social worker, and she explains further, "You're seeing how you're a piece of the puzzle—that because you interact with the ecosystem, you're important to that system."
- Doing something to help the environment will help us better accept complexities involved in larger issues. Kazez goes on about the benefits of confronting the 'drop in the bucket' fear we may have about the possible insignificance of our small actions in the big scheme: "when you do something to help nature, you have to confront that *am I patching a sinking ship?* worry," but in the process, you see the nuances, and "learn to better live with ambiguity, to acknowledge problems, and to do what you can to address them."

As is true with nature's connection to our emotional well-being, could it be possible that if our investments are attuned to encouraging a better stewardship of our assets, this would affect our mental health in a positive way? Companies whose policies allow our natural environment to maintain its healing properties, respect individual humanity and prosperity through the products or services they provide, may make us feel connected to the larger society and the goodness it can generate. Through our investments in these companies, we take on their accomplishments. This boosts our confidence and therefore it improves our mental health. To know your money is helping improve the lives of others, whether through loaning to a company that hires more workers or buying stock in a company whose products or services you love, may allow those endorphins to flow!

> *When we are mindful of every nuance of our natural world, we finally get the picture: that we are only given one dazzling moment of life here on Earth, and we must stand before that reality both humbled and elevated, subject to every law of our universe and grateful for our brief but intrinsic participation with it. (From her biography of naturalist Eustace Conway.)*
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> —Elizabeth Gilbert

Fiduciary Rule

You may have heard that The Department of Labor (DOL) has issued a rule that requires financial professionals to act as fiduciaries with their clients. The rule is designed to protect consumers receiving investment advice in retirement plans and individual retirement accounts (IRAs). This means that the advisor should act in the client's best interest, make full and fair disclosure of all material facts so as to avoid conflicts of interest with clients, and not take unfair advantage of a client's trust. This rule originated with the Obama administration and has been subject to political controversy and delays. Some of the provisions became effective June 9th and more are scheduled to be effective January 1, 2018, if not changed or repealed.

The advisors at Hansen's Advisory Services, as financial professionals, have always acted in a fiduciary capacity with our clients. Sue and Gayle are Accredited Investment Fiduciaries, meaning we have taken classes and tests to earn the AIF designation and must complete continuing education training. For our clients, and us, the new rule will necessitate additional paperwork and disclosure forms—particularly for retirement plan rollovers and IRAs. The rule aims to protect consumers from excessive fees. Therefore, in anticipation of this rule, we exchanged investments in our managed accounts to the lowest fee share class available earlier this year. We disclose all fees and how they are paid when we discuss investment account recommendations. At times, the payment of a higher fee may be justified or even desired to accomplish a particular goal. It is important that it be fully disclosed and discussed. We welcome any and all questions about the fiduciary rule, investment fees or investments.

HAS NEWS

We hope you have enjoyed seeing and hearing Hansen's Advisory Services support for NPR and PBS along with the opportunity Sue has had to answer financial and tax questions on Channel 3 and 5 this winter and spring.

Gayle has recently earned a certificate as an Accredited Investment Fiduciary (AIF). This spring Sue attended the AIF conference in Nashville, TN where the speaker highlights included the Chief Global Strategist of Schwab who says trade worldwide is up and will continue to rise, and the author of "Hidden Brain", Shankar Vedantam who noted how our beliefs allow us to judge that a $10 item if sold for $90 has more quality.

This newsletter edition has a new addition to the banner. We have adopted a curious, wise, and streamlined owl as our logo. Hope you like it! The owl and HAS certainly likes you and thanks you for your business!

You must not lose faith in humanity. Humanity is like an ocean; if a few drops of the ocean are dirty, the ocean does not become dirty. —Mahatma Gandhi

Questions & Answers:

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Q: **What are Green Bonds?**

A: If you invest in a green bond, you are loaning money through your mutual fund to organizations that strive to have a positive impact on the environment, community development and sustainable infrastructure. Some bonds address climate change by reducing demands on natural resources and advancing lower carbon generating energy sources. Other bonds may provide capital to entrepreneurs in developed and developing countries. The Grameen bank started in Bangladesh by Nobel Prize winner, Muhammad Yunus is an example of an institution that loans small amounts of money to small businesses. This is called microfinancing.

Q: **What does using ESG in money management mean?**

A: Environmental, Social and Governance (ESG) are the factors used to measure a company's chance for success. In addition to the financial statistics of the company, looking at how the company protects environment, respects its employees and community and how it governs the organization in a fair and reasonable manner are very important to evaluating a company's growth prospects. ESG is becoming more widely accepted as an evaluation tool.

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