FRIDAY, MAY 26, 2023

Well, hello and welcome to the Dividend Cafe recording from beautiful Nashville, Tennessee where I've been all week. We'll be flying home on Friday night back to California. But in the meantime, kind of excited to bring an interesting, a little different than normal message this week. I think that it's a different message for the Dividend Cafe and it's of a topic that many would say is unprecedented. And I'm not sure I agree partially because I have a pretty permanent aversion to the word unprecedented. I do hold to the bias that there's generally nothing new under the sun. It is just that what we refer to as unprecedented is usually not so much unprecedented as it is the specific manifestation of something, the specific implementation is a bit different, but that it does have some connectivity to history. That's almost always the case in financial markets, that there's nothing new under the sun.

And more robust understanding of history helps people from, prevents people from saying things like such and such an event is totally unprecedented. Even if there is unique novelty to some of the stuff that happens. Unprecedented sounds to me, to dramatic of a word. Right now, I would suggest that one of the things happening is a new debate around an old issue. It's been debated in a new way with new ramifications, but it's by no means a new topic in terms of the kind of philosophy or philosophical tension that underlines it. I want to start by talking about what a company's duty of care is. Primary responsibility for a publicly traded company, what they're there to do. We know as a general rule of thumb, any enterprise is there for the production of goods and services around the particular good or service or portal version of those that they make.

And to do these things, terms of purpose of making a profit, the profits of which would accrue to their shareholders. And you can say, well, I don't think that's the purpose of a company. This public company is there to do something else, not to make a profit. It would of course beg the question then how they ever raised equity capital, because I don't think you'd find a lot of shareholders that say, shareholders that would say, yes, I want to invest in this company even though the company just said that they're not there to go get me my money back, make me a profit on that investment. They're there for something else and yet I want to give them money anyways. And yet, of course, all publicly traded companies did have capital formation. They did have some form of capital structure that involved people taking risk by purchasing equity, which is to say to own some of the company.

And therefore, unless they were duped, you would think that they were under the impression that the company they were investing in was there to help make a profit for their investment. And I think this debate, the famed economist, Milton Friedman, wrote an article in the New York Times in 1970 making the case that the purpose of a public corporation was to turn a profit and that the social responsibility of companies was to its owners. And that, again, there's a sort of legal parsing here, a fiduciary duty that is unique that the company has to its owners. It's a technical and accurate argument, but again, there's some market principles at play. People can say, well, what you're saying then is they don't have to treat workers well because they only owe responsibility to their equity shareholders. And of course, that's not what I'm saying because it's a market principle to me that I'm not going to do very well by my shareholders if all my employees quit.

And there are market forces at play that say, Hey, you know what? The better we treat employees, the better we pay. We are going to have an advantage in client retention, or we're going to avoid a disadvantage of client attrition, or excuse me, employee attrition if we treat our employees a certain way. And I think that the market and competition, wherever there's a free flow of labor and a free flow of capital enables a sort of self-regulating mechanism there. And ultimately even to the reputation of a company that the way they treat their vendors, the way they pay their bills, the way that they conduct themselves, their reputation, community in a market in which they function, all those things matter. And so a few years ago when the business round table came around and said, we have a new term now called stakeholder capitalism, and we think that the company does not exist for the purpose of its shareholder, but for all of these other economic actors, including just the broad based community, the community at large, I think that they're inviting worthless vocabulary that it's so broad, so encompassing, the lack of specificity makes it kind of meaningless.

And of course, when I say the word primary duty of care to the owners of a company, not the community of mankind, people already know this to be the case. If I started a company of our a lemonade stand and you gave me a thousand dollars to invest in as an owner in the lemonade stand, and I immediately took the thousand dollars and gave it to a charity, and I said, I'm, I'm doing this for the community of mankind. What is your problem? My duty of care is not to you. To them. You would sue me and you would win and all that. So I do think that some language that might make people feel good, might sound nice, is somewhat unhelpful when we're talking about real social responsibility of a company. Because what I did not say is that companies have no responsibility at all to be good actors or to be good social responsible parts of society. What I'm saying is that there's a sphere of responsibility that the purpose of a company is to deliver goods and services that meet the needs of customers to do so at a profit. And along the way, they will employ people and they will have to buy things in a supply chain. They will have to attract capital, they will do things. And that exists in the sphere of a business model.

And I don't think that within the business model that it is helpful to get way outside of that lane and then say you're supposed to be doing something else. A high school does not have to run, have the best bowling alley in the world. They're supposed to stay in their lane. And yes, that was done on purpose. So I don't think these things are be too exclusive. And I think this isn't that hard. I think everyone knows this, that companies can be good responsible actors without violation violating who their primary duty of care is to, and this has become a very big debate, but it's a debate that has a lot of semantics and a lot of errant philosophy behind it. And ultimately, I do believe that the company pursuit of profits is what attracts capital, what makes people invest. And that in so doing there is the rule of law, but there's also a lot of common sense behind what companies would want to do and not do as they protect and steward their own reputations.

And of course, the real moral, excuse me, what's the right word? Responsibility that we all have individually doesn't go anywhere. The individual members of a company, people who work somewhere, people who have p and l responsibility, that we all have our own individual responsibility as moral beings and social actors that we take to any transaction or any process. But that putting the onus on a company that they are not primarily there for whatever it is they do, but rather for some kind of philanthropic game is counterproductive and ultimately would lead to nobody doing anything to help the environment or charity or profit making enterprise. Because when you strip out that profit motive, it would be ghastly to think about what would happen to our economy and the various charitable endeavors that are supported by that free economy. So back to the subject at hand, which is engagement.

Sometimes you have companies in either pursuit of this stakeholder capitalism or otherwise. There's a whole lot of reasons that companies may get on this path. Some may be true believers, some may be just kind of faking it for marketing and public relations purposes. But there are a lot of companies that have decided to get real into certain e sg initiatives or certain into kind of woke culture war issues, and there'd be people who could be upset at 'em about that. But then of course, there's people that could be upset at the companies for not doing enough ESG or not doing enough woke culture stuff as well. And I think that the question an investor has to ask is, when a company is out there doing either more or less of something that you think that they ought to be doing more or less of, what is the right way to handle it if they are kind of in violation of your value system?

How should a shareholder think about that? And I believe we put a tension between a sort of category of frustration about what companies are doing and the value of the investment. And what I want to suggest is actually that's what the tension ought to lie is where companies are actually doing things that harm the investment opportunity for you as an investor and from my shoes, when they're violating their fiduciary duty or forcing me to violate my fiduciary duty for them to pursue the best outcome for clients who require those outcomes for their various goals and objectives. And I think that along the way there, everyone's have a value system, and what I can't do in this different cafe is tell you what yours is or must be. I don't have an opinion on that, especially as it pertains to certain particulars, but what I do believe is that you cannot avoid whatever it is that is part of your value system. You wish they'd be doing more X, Y, Z or you wish they wouldn't do any X, Y, Z.

If you own the company and believe it to be a good investment and that they are a competitive and successful and impressive and attractive risk adjusted return potential as a publicly traded company, then I think it's impossible that whatever they may be doing that violates some of your code, that you wouldn't be exposed to it elsewhere. If a company's large enough to be a publicly traded company and you pull the money and say, I'm going to the bank, so you go, okay, fine. You're not in this ex company doing this X, Y, Z thing. You're not in any other company doing the X, Y, Z, but your money's sitting and deposited on the bank, so you're morally neutral. But of course, that bank is lending that money out to the people doing the same thing the other company was doing. And I say that knowing that any company at the

Public trade level is large enough that there's different connections in just the ebb and flow of an economy, that these actions touch one another obviously. And so it's somewhat unavoidable. But then again, one of my presuppositions in this hypothetical is that you believe in the company, you think it's a good investment, so then the question becomes, what is the right thing to do when they're doing X or not doing X, doing Y, not doing Y. First of all, my feelings about companies that are either doing X or not doing X based on what I want is very different for a company I own and find to be an investment that is attractive versus the company I don't own. And I just want to get in and be an activist, stir things up because I'm mad at the company. I really believe that a lot of what I'm about to talk about should be limited to the world of people who own companies anyways and are acting in their best interest of protecting their investment.

They believe in my case, investments I believe in as I own all of 'em personally, but also of course, investments I believe in for my clients. Do I think that boycotting is going to be when we're talking about ownership of companies, a better vehicle than engagement? And the answer is, I do not. I think that boycotting is largely silly when it comes to equity ownership where you have the ability to own good investments and then where they good investments get into bad activity to try to affect social change by using your rights as a shareholder that you've had for hundreds of years. These are things that have a significantly steep legal tradition, and yet I think so many people do not even know about it. And so when you are looking at companies that you like that you want to own anyways, I think that in the weeds, there are various actions that we intend to get very into at the Bahnsen Group. We want clients to be able to not have their shares voted in a way they wouldn't want them voted their themselves. So when the shareholder resolutions going forward and someone says, yeah, I want to support that, or no, we do not want to support that, that there can be a service that can vet that look at that through a different lens than maybe some of these proxy services look at things.

I certainly don't want to abandon good stewardship, but I prefer an engaged viewer stewardship to one that is just merely activist. We are contracting on our own dime with an outside consulting service to really do research on shareholder resolutions to aid in that proxy voting. We want to vote when there's resolutions. We want to talk to management. We want to make recommendations as to things that they shouldn't be doing or things they are doing. And we have that right as a shareholder, we have that clout, and so we want to be able to do that, but not from the purpose of being a rambunctious activist, but engaging in constructive dialogue using our legal rights, some of which may end up not coming together, some of which will, but we do not want to lose fights that we don't show up for. If we're going to lose something, we at least want to be in the game.

So it's meant to be a value added component of what we're doing. We are going to be laying out a little more, you can hear from your advisor directly on how we're taking this fight up in a much more organized way, no cost to clients. Some there is a cost. It's something we're going to cover directly, but something we believe in a great deal. So we do owe certain returns to clients. We desire standards of investment excellence, but we want to get these things that when companies are acting badly or questionably, we want to get 'em with engagement, not a boycott and not no skin in the game activism either. That's our plan. So I will leave it there. I've covered the basics. Obviously, feel free to reach out with any of the questions you have. I think it's very exciting what we're doing for clients.

A very simple kind of opt-in, no extra fees or money or trouble, but just something we want you to know that we're doing on your behalf, and you are welcome to understand it as is needed. Okay, with that said, have a wonderful Memorial Day weekend. Thank you for listening and watching and reading the Dividend Cafe. Thank you for reviewing us and doing your part. Please, please, please to rate us and help us grow in the different rankings that matter in the podcast universe and beyond all that. We'll see you again next Friday at the Dividend Cafe.

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