Principles and Profits Working Together

THE CLEAN YIELD

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Country Ways: The Clean Yield, Technology, and Change

Twenty-five years ago, when the Clean Yield got its start, technology enabled us to operate from an old farmhouse in Stannard, Vermont (pop. 148). Doug and I, the founders, had moved to Vermont after college to get "back to the land" and a simpler, more meaningful lifestyle. Despite our anti-establishment bent, we could see from the outset that emerging technologies were connecting Wall St. to the world in new ways. We started with a fax machine and a trusty old Apple IIE. It quickly became clear to us that accessing trading-floor data from afar, without all the hubbub and rumors that go with physically being near Wall Street, was actually putting us at an advantage.

For a number of years, we still had to travel to the Dartmouth business school to conduct much of our financial and social research. However, it wasn't long before the Internet permitted many of the key research databases to be accessed directly from our offices. To be certain we could get the high speeds we needed for carrying out our online activities, which by then included trading, we tacked a sign-up sheet to the bulletin board on the wall of our local general store. Within days, we had enough names to organize a town committee to get broadband. Shortly thereafter, a company formed by some enterprising young people "lit up" our community with wireless technology. Our committee had helped the new company arrange with a mountaintop farmer to erect small dishes on his barn that would bring high-speed broadband to Greensboro, seven miles distant. The farmer,

Clean Yield Staff (l to r): Rick Hausman, Elizabeth Glenshaw, Rian Fried, Eric Becker, Doug Fleer, Dorigen Hofmann, Valerie Martin

who lived in Stannard, bartered with the company. For his part, he got voice-over-internet phone service (VOIP) for free, one of the earliest in northern Vermont. The company got a cheap place to lodge its equipment, and the town and businesses in the area got cheap access to speedy Internet access.

Now we are again on the move, and technology is helping to make it possible. As we mentioned in the last quarterly letter to clients, during the last eight months we have been busy adding new staff, renovating the floor of a historic building in Norwich, Vermont, and moving the operations headquarters there. (We anticipate having an open house in the fall to introduce clients, friends, and colleagues to the new space.) Our reasons for the move are many: the new office gives us lots of needed room, brings us closer to many of our clients, makes it easier for our out-of-state and in-state clients to visit us, and—very important—makes it easier for staff to have more face time with each other. Our expectation is that three of us—Elizabeth, Valerie, and Rick—will spend all of our working time in Norwich, and two of us—Rian and Eric—will spend, half time in Norwich and, respectively, half time in Greensboro and Cambridge, Mass. Dorigen, who has a satellite office in Washington, D.C., will spend a week or two each quarter in Norwich, and Doug, who will continue to staff our Greensboro office, will work out of Norwich as needed.

The technology that will tie all of us together all of the time is a cable-based, state-of-the-art, VOIP phone system. We hope, by time you get this newsletter, all of our offices will be linked by phone and video, and callers to Norwich will be able to seamlessly reach any of us. Inevitably, there will be a few glitches as we learn the new system. Please bear with us if you happen to be part of one of these glitches.

Between the new staff and the new office, we now have more capacity to take on new clients and also to participate in more shareholder activism and community-development investing. All of us are very excited by the changes. If you have any questions, please give any of us a call.

RIAN ■

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MARKET NOTES

Value in Strange Places

Investment pundits are extremely divided about the future.

At one pole stands the doomsday deficit/inflationary camp. This group believes that inflation will inevitably make short work of economies all over the globe and spark city and state defaults that will make Greece look like a temple of parsimony.

At the other extreme sit the über-Pollyannas. Their claim is that the economy has bottomed out, and we are now on the road to a swift recovery.

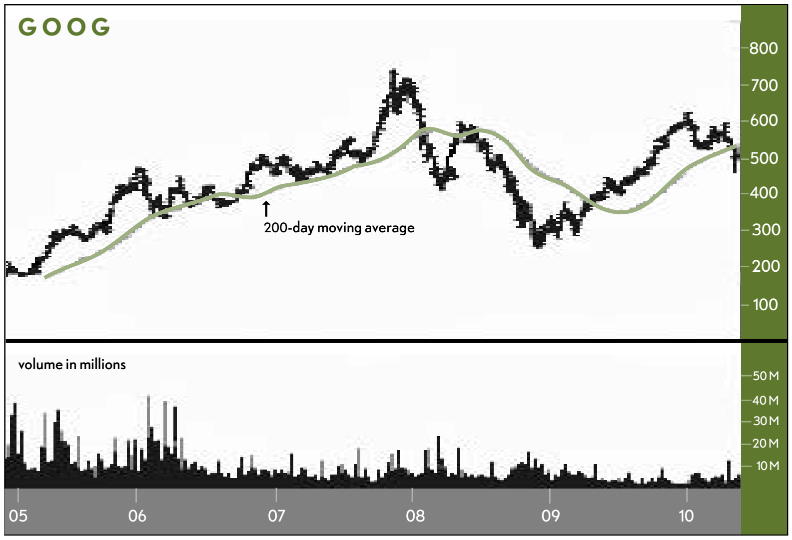
Both sides have their merits. The optimists have a lot of recent data they can point to; the pessimists, history. To be sure, the world economy is fragile enough that either scenario is plausible.

During much of last year, the stock market sided with the optimists; during the last few weeks, the pessimists. For us, the mood of the market has the same psychological power as it does for most investment professionals—it is just impossible to ignore when you are barraged all day with either positive or negative financial news. However, for our stock picking, the doom or exhilaration of the market has the reverse effect. When we feel a worrisome knot in our stomachs, we know it is time to scan our spreadsheets and valuation measures, because it must be a time to buy. When we feel the market strangely buoyant, it must be a time to sell.

The two companies profiled in the accompanying article couldn't be more different: a manufacturer of signs and labels attached to every widget made, and a tech company whose products depend on a dimension in space that didn't exist just a few years ago.

It is not hard to imagine Brady as a value stock. Many old-line dividend-paying manufacturers traditionally fall into this category. But Google a value stock? You've got to be kidding.

continued on page 3



GOOGLE (GOOG)

Revenues: $23.65 Billing
EPS: 2011E $32.06
2010E $27.82
2009A $23.20
Web site: www.google.com

Projected Annual Growth Rate: 18%
Dividend: 0%
52-Week High–Low: $629.51 – $384.69
Risk: Medium

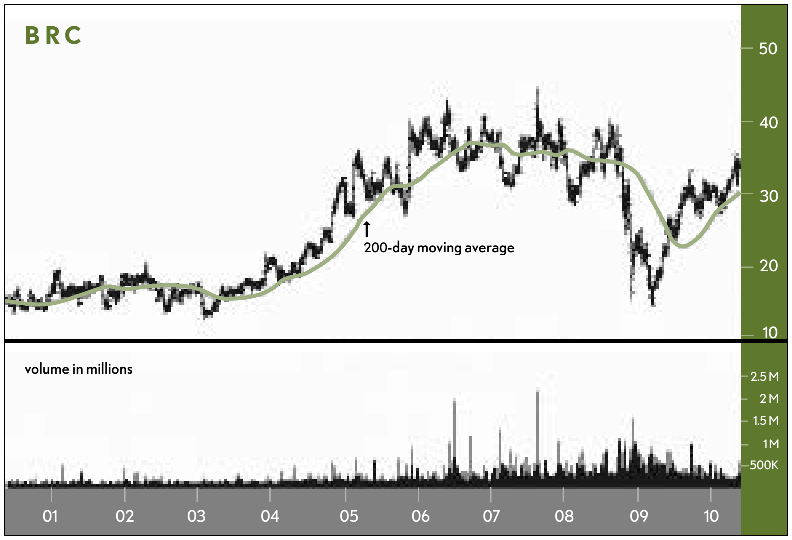
Little Engine That Did

When a company's name becomes a synonym for its product, the market salutes. Google, now a verb as well as a noun, is used in more than 90% of Internet searches globally, and the company's dominance has made it a magnet for Web-based advertisers. Using Google's algorithms, advertisers can target individuals who search on certain words or look at specific types of Web sites. The company has also acquired or developed a host of related businesses, including YouTube, Picasa (photo storing and editing), Blogger, and Android (smart-phone operating system). The company touts its open, free, and transparent principles, and so in March, Google stopped allowing China to censor its search results. By routing its Web site through Hong Kong, it now circumvents Chinese government censorship. Consequently, some Chinese advertisers have moved to Baidu, the top Chinese search engine, but that hasn't taken much of a financial toll at this point.

Google is a remarkably reasonably priced stock. Its price-earnings ratio is 20, and it earned more than $22 last year and expects to grow those earnings by at least 15% in upcoming years. The P/E ratio and other valuations are remarkably low for a technology stock. The company has no long-term debt and plenty of cash to allow it to do what it's famous for—invest in new ideas and projects. The stock first went public in 2004 and reached a high of more than $700 in late 2007. It took a serious hit during the financial crisis but has since rebounded. Currently, Google is not bargain-basement cheap, but it is a fair value (see sidebar) and has become a classic growth-at-a-reasonable-price (GARP) stock.

Corporate Responsibility

Given its size and public exposure, it is hardly surprising that Google has become a lightning rod for controversy. Overall though, we view the company's social record as positive. In areas where natural disasters have occurred, most recently in Haiti and Chile, Google provides a free people finder—an online tool that allows people to post and search for missing individuals. The company's clean-energy program, RE<C, seeks to make renewable energy cheaper than coal through research grants and investments, policy efforts, and using Google tools to unlock important information. In May, the company made its first investment in two utility-sized wind farms in North Dakota. Additionally, Google continues to work on making its own offices environmentally friendly and carbon neutral. The company likes to point out that its data centers consume half of the energy typical data centers do. On a less-conventional (and more humorous) front, Google uses goats instead of lawnmowers for keeping its grounds green and tidy at its Mountain View, Calif., offices. ■



BRADY CORPORATION (BRC)

Revenues: $1.21 Billion
EPS: 2011E $2.05
2010E $1.75
2009A $1.71
Web site: www.bradycorp.com

Projected Annual Growth Rate: 10%
Dividend: 2.2%
52-Week High–Low: $35.37 – $21.21
Risk: Low

Safety in Numbers

Every day, most Americans see Brady Corp.'s products, many of us wear them, but all of us rely on them, albeit mainly subconsciously. Brady makes identification badges, safety signs, and product labels that are found on consumer products, around factory floors, and in buildings around the world. The company started humbly in 1914 in the Midwest and has since grown into a global omnipresence, with more than 60% of sales outside the U.S. Brady recently bought a French first-aid supply company that will further extend its imprint in Europe. Demand for Brady's products tends to grow with new or increased regulation by EPA, OSHA, and similar government bodies that monitor safety issues.

Brady's financial statements and balance sheet are those of a classic value stock. The company pays a 2.2% dividend with regular increases. Although its debt has increased in the past 5 years, it remains within reasonable bounds. The company grows through expanding into new regions and through acquisitions of other companies. It aims to be the first or second provider of safety signs and products in each region it serves. Brady's revenues and stock price have stayed relatively stable in both the short and the very long term, although they both dropped sharply in 2008. This last year has been a time of rebuilding for Brady, and as the manufacturing sector and employment numbers improve, Brady's products will be in demand and their sales should continue to climb accordingly.

Corporate Responsibility

The company works hard to maintain its reputation for high-quality products and high ethical standards, and it makes a point to be a positive force in communities where it is located. However, Brady's main appeal to social investors is that it produces goods used for health, safety, and security. The company's entire workforce has been salaried for more than ten years, an attempt to provide workers at all levels with a sense of being trusted and valued. Although Brady does not provide sustainability reports, it does have an environmental and safety management program that tracks safety and emissions data in all facilities, ostensibly holding them accountable. The Brady Corporation Foundation, the company's charitable arm since 2005, gives grants to support Milwaukee schools and other education-related activities. Brady's board and executive committee could stand to have more minority and female representation; there is a sole woman board member, the great-granddaughter of the company's founder. ■

CY's Latest Staff Addition

Ring us up at Clean Yield and the chances are good that the voice on the other end will belong to Valerie Martin, our new office operations associate. Based at our Norwich office, Valerie is already our point person for communications, data management, and recordkeeping for all four offices.

Sporting a B.A. in graphic design (UConn, '92) and a background that includes office management as well as catalogue design work (at Orvis, the sporting-goods company), and personnel training (at Tele Atlas, a digital mapping company), Valerie keeps us organized and lends her technical design skills to our publications.

That Victory motorcycle in the parking lot? It belongs to Valerie. She's not one to be pigeonholed, though. She sings with a local a capella group, and she crochets, sails, hikes, and gardens. You might also find her cooking with her daughter, watching her son play sports, or riding with her partner, Dennis. Welcome, Valerie.

***Market Notes** continued from page 2*

Yes, a value stock. When markets get extremely nervous, as they are now, the first stocks to take oversized hits are tech and development-stage companies. Google is now a solid value play, 20% below its 52-week high. It doesn't meet every value criterion—it lacks a low price-to-book value and it doesn't pay a dividend—but it meets most: below-market P/E, no debt, a low price-to-earnings growth rate (PEG), great free cash flow, and $26.5 billion in cash ($83 per share). Google is rarely a value stock, but when buying it quiets our stomachs, we know that it is currently the right prescription. ■

Slow Money Takes Root

"Slow money" is investing in sustainable food systems using patient, long-term capital. Last issue, we illustrated the concept with the Carrot Project. This issue, we cast our net more broadly to give a sense of the variety of initiatives taking place around the country.

Nationally, the Slow Money Alliance promotes the Slow Money Principles (see box) and supports locally based initiatives. The Slow Money Alliance's long-term goal: a million Americans investing 1% of their assets in local food systems within a decade. Toward that end, the Alliance is organizing gatherings (see box) and urging people to sign on. Meanwhile, local initiatives have been springing up spontaneously around the country.

In Greater Boston, a Slow Money MeetUp group is facilitating the flow of capital between investors and sustainable-agriculture-related business owners by building on existing community-supported agriculture, farmers' markets, and local-first campaigns. The new capital may take a wide range of forms, from philanthropy to financing community-supported restaurants and grocery stores to angel investing in local food businesses.

In Philadelphia, the venerable Reinvestment Fund is developing a local-food fund that will use a community-investment model, offering investors a low interest rate while targeting loans to local food businesses.

In Maine, an all-star cast of leaders in government and the nonprofit, financial, and business sectors has been meeting since January to match prospective investors to identified regional food system needs. Participants have included Coastal Enterprises, Maine Organic Farmers and Gardeners Assn., Maine Rural Partners, Maine Farmland Trust, and the Carrot Project.

In Texas, Slow Money Austin held a kick-off session with 50 attendees in November, followed in April by a well-attended "showcase" at City Hall featuring a number of farm-to-table companies. The group is also investigating a Slow Money Austin fund.

The Slow Money Wisconsin Initiative held a meeting in December with 20 key stakeholders to brainstorm how to jump-start the organization. The group is applying for a state development grant. Similar initiatives are gathering steam in Seattle, Boulder, Santa Fe, northern and southern California, N.C.'s Research Triangle, Georgia, Cape Cod, and New Hampshire.

Significant barriers remain. Slow money is a new approach that challenges conventional investment thinking about risk, return, and time horizon. Clearly, though, slow money has tapped into many investors' desire to align their dollars in a way that supports their personal health, the health of the soil, and the health of their communities. ■

slow money

Readers are invited to join CY staff and an emerging network of investors, donors, entrepreneurs, farmers, and activists who are giving birth to the nurture capital industry:

Slow Money Alliance
Second National Gathering
at Shelburne Farms
near Burlington, Vermont
June 9-11, 2010

Meet thought leaders who are designing capital markets that go beyond extraction and consumption all the way to preservation and restoration…starting with food and soil fertility. The event begins with eTown, a nationally syndicated show on NPR. For details, call 617.566.2600 or visit www.slowmoneyalliance.org.

THE SLOW MONEY PRINCIPLES

In order to enhance food security, food safety, and food access; improve nutrition and health; promote cultural, ecological, and economic diversity; and accelerate the transition from an economy based on extraction and consumption to an economy based on preservation and restoration, we do hereby affirm the following principles:

I. We must bring money back down to earth.

II. There is such a thing as money that is too fast, companies that are too big, finance that is too complex. Therefore, we must slow our money down—not all of it, of course, but enough to matter.

III. The 20th century was the era of Buy Low/Sell High and Wealth Now/Philanthropy Later—what one venture capitalist called "the largest legal accumulation of wealth in history." The 21st century will be the era of nurture capital, built around principles of carrying capacity, care of the commons, sense of place, and nonviolence.

IV. We must learn to invest as if food, farms, and fertility mattered. We must connect investors to the places where they live, creating vital relationships and new sources of capital for small food enterprises.

V. Let us celebrate the new generation of entrepreneurs, consumers, and investors who are showing the way from Making A Killing to Making a Living.

VI. Paul Newman said, "I just happen to think that in life we need to be a little like the farmer who puts back into the soil what he takes out." Recognizing the wisdom of these words, let us begin rebuilding our economy from the ground up, asking

- What would the world be like if we invested 50% of our assets within 50 miles of where we live?
- What if there were a new generation of companies that gave away 50% of their profits?
- What if there were 50% more organic matter in our soil 50 years from now?

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