



## JPS Global Investments—The Quarter in Review

Volume 1, Issue 3. October 2007

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### Market Summary

Despite a turbulent August, U.S. markets delivered positive returns for the quarter. The S&P 500 Index, Dow Jones Industrial Average (DJIA), and the NASDAQ were up 2.0%, 3.6%, and 3.8% respectively. The past 3 months certainly taught investors a lesson in volatility. The major indices posted over a 9% loss in August compared to their July records, only to rally back in September. In fact, last month turned out to be the best September for the DJIA since 1997.

Acting on predictions of when markets rise and fall can be a fruitless or even disastrous endeavor. As such, investors are best off taking a long-term view and not getting swept away by the day-to-day market hype.

The Federal Reserve's September rate cut helped markets and eased credit, which had become dangerously tight. Apparently the Fed was less concerned with inflation than with the possibility of a recession. However, that does not mean that inflation worries are no longer present. With oil reaching over \$80/barrel we are not out of the woods yet. Other road blocks that could stop the current up tick on Wall Street, are a continuing weak U.S. housing market, which could eventually drag down the consumer, and the sub-

prime mortgage fallout, which is still ongoing.

**The Dollar** weakness is a mixed blessing. If you are a U.S. exporter of goods, these are good times. A weaker dollar helps narrow the trade deficit by making exports cheaper and imports more expensive. The downside, however, is the risk that foreign investors may be less willing to finance our trade deficit by purchasing Treasury securities, as dollar returns become less attractive. This, in turn, would send down the price of Treasuries, increasing their yield and increasing other interest rates, which would hurt economic expansion.

If you have traveled abroad recently, you probably noticed how painful a weaker dollar can be. It wasn't too long ago (2002) that the dollar and the euro were at parity. Now, everything in Europe is 40% more expensive compared to then.

**China Backlash.** Almost no one had ever heard of Zhang Shuhong, until China's state-run People's Daily reported his suicide on August 14<sup>th</sup>. His no-brand company had been making dolls for Mattel, which, on the same day as Mr. Shuhong's death, recalled 436,000 toy cars with lead paint and 18 million toys containing small magnets that can come loose and be swallowed. All these items were made in China. Certainly, China is a fault for lack of quality and safety

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standards. But, is Mattel without blame? A company that submits orders of millions of toys can certainly demand quality standards and inspections.

In 1995, Mattel was first notified of accidental fires caused by faulty wiring of its Power Wheels line of toy cars. It didn't notify the Consumer Products Safety Committee (CPSC) until 2 years later and only after the CPSC had already found out independently. The magnet problem was first learned of in November of 2006, but Mattel continued to collect an additional 400 accident reports until deciding to make the August recalls in one big swoop. Great timing, as China was already in the hot seat. However, any attempts at improving quality of Chinese products needs to involve both retailers and suppliers: it is not just China.

### **Sustainable Investing Update**

**Changing a light bulb.** The House and Senate are working on legislation that would phase out the use of incandescent light bulbs over the next seven years. General Electric and Philips Electronics have been meeting with environmental groups to discuss how to enact a phase-out. The EU, Canada, and Australia are planning similar phase-outs. Paul Waide, a policy analyst with the International Energy Agency, noted that if we change out all incandescent light bulbs in the next 10 to 15 years, a carbon-dioxide emission reduction of three-fourths of the reductions promised by the Kyoto Protocol would be possible. Energy savings of \$6 billion would be achieved by U.S. consumers alone, if all conventional light bulbs would be replaced with compact-fluorescent ones.

The big three manufacturers are GE, Philips, and

Osram Sylvania. I have recently initiated a position in Philips, which has made a large commitment to LED lighting (even more energy efficient than compact fluorescent) by purchasing Color Kinetics, a company specializing in LED technology.

**Solar diversity.** One of the main barriers to buying solar panels is the upfront cost to the consumer. Sun Run Generation LLC, launched a program to finance solar power for residential customers. One would prepay the company \$8,000 for a 20 year lease on solar panels, rather than owning the panels outright.

An even more economical way of getting into solar is through the purchase of a new home with built-in solar. Lennar is building about 2,500 solar-powered homes in California in cooperation with SunPower. Lennar officials say that they can sell these homes, priced at \$450,000 to \$600,000, for the same price as homes without solar, due to the tax credits they get. Besides, the sales rate for their solar homes is 3 times greater than conventional ones in a down market, according to the company.

Solar panels are not just for the roof. There are many new solar applications coming to market. For example, Cruise Car Inc. of Sarasota, FL, makes solar powered golf carts. A San Diego firm called Envision Solar, is planning on selling solar car ports for \$5,000 to \$8,000. These could be used to power plug-in hybrids. The solar market is diverse indeed.

**Getting Out the Green Message.** Not a day goes by without Exxon Mobil taking out a full page color ad in the Wall Street Journal, touting its commitment to the environment. And it is not alone. Wal-Mart, Chevron, BP, the list goes on. How does one separate spin from truth? It is a big

challenge, but what is interesting is that large companies are starting to come to the conclusion that being seen as green in the eyes of the consumer is important. Perhaps they read the results of a recent study by GfK Roper that concluded that a large majority of consumers say a company's environmental practices are important in making purchase decisions. According to the study, 79% of consumers consider a company's environmental practices when purchasing products, 77% when recommending products, and 72% when deciding where to invest their money.

Some of the commitments the aforementioned companies speak of in their advertising are real. Take Wal-Mart for example. They have committed to reduce their energy consumption 20% by the year 2010. That is a very concrete commitment. And what Wal-Mart does, matters. If it were a country, it would be China's 6<sup>th</sup> biggest trading partner. Furthermore, it is the biggest private consumer of electricity. As such, its policies can have a significant impact on carbon-dioxide emission reductions.

**Green Engines.** Although automakers have protested the increase in fuel efficiency standards being mandated by Washington, the industry is preparing for a greener future. Especially parts manufacturers stand to benefit if they can seize upon the opportunity to build cleaner engines. One such company is BorgWarner Inc., which makes parts that improve vehicle efficiency. Makers of diesel engines, such as Navistar International and Cummins also stand to profit if more efficient diesel engines are transferred to the small car market. I do not currently own any of these stocks, but am keeping an eye on the sector for attractive opportunities.

**Junk Food Spoils Investor Appetite.** In late spring PepsiCo and Nestlé had explored the possibility of a merger. PepsiCo had initiated the proposal. According to a person familiar with the situation, as reported in the Wall Street Journal, one of the showstoppers of the deal was Nestlé's concern over PepsiCo's reliance on snacks and soft drinks, which would detract from Nestlé's mission of building a healthier product line. PepsiCo is trying to expand into more healthful products, as it has been the target of public health experts, activists, and consumers demanding better products. The purchase of Tropicana and Quaker Oats are a couple examples of this new expansion strategy. Perhaps soon PepsiCo will be a more attractive merger partner.

**Watching Grass Grow** may not sound exciting, but it is quite the hype these days. Stephen Long, a plant biologist at the University of Illinois, used to be able to count on one hand the number of academic conferences that invited him to come and speak each year. After a February White House visit to explain how plants could replace foreign oil, things started moving for Mr. Long. That same month UC Berkeley, University of Illinois at Urbana-Champaign, and Lawrence Berkeley National Laboratory were the recipients of a \$500 million grant from BP to develop cellulose fuels.

Mr. Long was appointed deputy director of the project, called the Energy Biosciences Institute. Now he is being inundated with conference invitations from all over the world, as much as 50 a year. Cellulose ethanol has a brighter future than corn-based ethanol as it does not compete with the food supply and can be made from plant materials such as rice straw, wood chips, and switch grass. Most energy companies do not have many biologists on the payroll (but rather

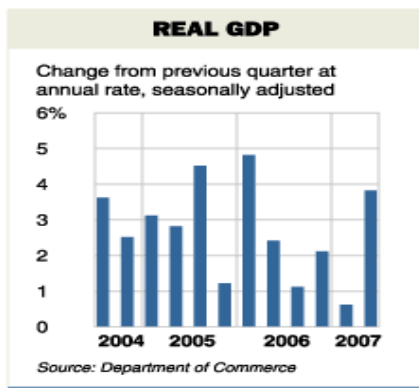
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geologists and petroleum engineers) and thus lack the scientific know-how to develop a biofuel. As such, organizations such as the Energy Biosciences Institute hold great promise for them and for us.

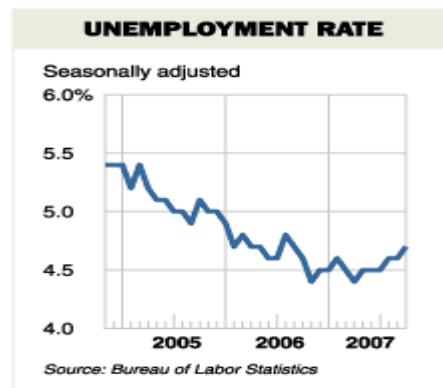
## Financial Markets Data

| Performance as of 9/28/07 |       |            |       |           |
|---------------------------|-------|------------|-------|-----------|
|                           | Qtr   | Yr-to-date | 1-yr  | 3-yr avg. |
| S&P 500 Index             | 2.0%  | 9.1%       | 16.4% | 13.1%     |
| Dow Jones Ind. Avg.       | 3.6%  | 11.5%      | 19.0% |           |
| NASDAQ                    | 3.8%  | 11.9%      | 19.6% | 12.5%     |
| Russell 2000 Index        | -3.1% | 3.2%       | 12.3% | 13.4%     |
| Domini 400 Social Index   | 1.7%  | 7.2%       | 13.9% | 11.0%     |

## Economic Indicators



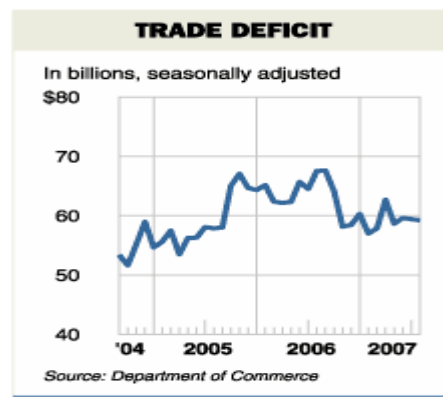
Q2: +3.8%



September: 4.7%



August: +0.6%



August: \$57.6 billion

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