By Dr John Price

How to be a Successful Conscious Investor

For most people, investing is a stressful process. Unfamiliar terms, conflicting advice and an overwhelming number of options combine to make financial planning a duty, rather then something that is fun to do. Yet it need not be that way, especially when it is conscious investing.

Conscious investing means congruence between your intellect and your heart

Successful investing means getting a satisfactory and reliable return on your money. Successful conscious investing means doing this in such a way that it does good for yourself, the company you are investing in and the wider community, environment and world that we live in. Conscious investing means congruence between your intellect and your heart, or more simply, between your wallet and your feelings. It sounds straightforward enough, but there are a few problems. The first problem is that very few people actually invest - consciously or otherwise - they speculate.

In the broader sense, investing means to do something now in order to receive some benefit later. We invest money in our children's education to give them a better chance of success in later life. Or we invest time taking a course on massage to improve our health and wellbeing. We even invest energy in the gym to gain more energy later on.

Most people talk as if any time that they buy shares, they are investing. However, as we have just indicated, very few of their transactions could really be considered as investments.

Benjamin Graham was referred to as the "Dean of Wall Street." Back in 1934 he said that "investing is an activity that both preserves our capital and provides a satisfactory profit - anything else is speculation."

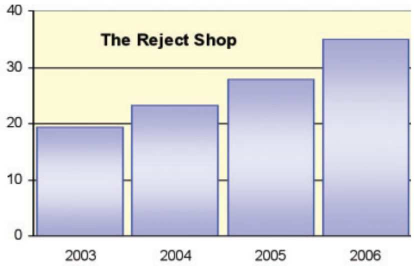
Three principles for successful investing

1 Think like a business owner. When I am buying shares in a company I do it as if I am becoming an owner of the whole business. This means recognising that behind the share price is a real company with real products and services. It has real employees, real offices or factories, and real competitors. The short term dips and peaks in the price of a share are driven by market exuberance and crowd psychology. This is the realm of gambling and speculation. But over longer periods the share price is driven by the continuing success of the business. Benjamin Graham described this as saying in the short term the share price is a voting machine and in the long term it is a weighing machine.

2 Select those businesses that earn a high return on equity. In common language, this means simply that the management of the business is turning a good profit on the money that it has. When a company does business, the money that flows in is called Sales or Revenue. After all the expenses and taxes are paid, what is left is called earnings, or earnings per share, when it is divided by the number of shares that the company has. It is useful to think of this as the money that the company has earned on your behalf. The equity of a company is what would be left after it had paid all its debts and borrowings. When we divide the earnings by the equity we get return on equity.

Acknowledged as one of the world's greatest investors, Warren Buffett says that he looks for companies with a high return on equity and little or no debt — and so should we!

3 Look for businesses with sales and earnings that have been growing consistently over the past. This doesn't prove that they will continue this way in the future, but it certainly increases the likelihood. Compare the growth of earnings per share over recent years of the following two companies in the retail sector. The Reject Shop has earnings that have grown strongly and steadily. In contrast, not only has the Oroton Group lost money each year, they have done this in an erratic way. Almost breaking even in 2004 only to drop back down again.



Again quoting from Buffett, "Put together a portfolio of companies whose aggregate earnings march upwards over the years, and so will the portfolio's market value."

What about being a conscious investor?

The first thing is to invest in companies with products and services that you understand and believe in. In a sense, each time you invest you are voting for more of what that company produces to be added to society. Or you are voting for the way it treats its employees to be more widespread.

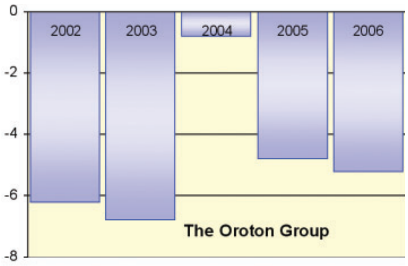
Move away from companies that you don't feel comfortable with and move towards those that, as a virtual owner, you can talk about with pride.

Have a look at your own life. What products and services do you use? What stores do you visit? If you like what you see, make enquiries to see if they are coming from a public company so that you can actually purchase shares in it.

Avoid companies that are a drag on society or exploit human weaknesses. In my workshops I often use the example of Aristocrat Leisure as a company about which people have widely-varying opinions. This is an Australian company that makes poker machines which the company euphemistically refers to as 'games'.

I explain to people that financially it may be a wonderful investment. However, I then ask them to ask themselves whether they like ten to fifteen percent more poker machines in their area or community each year. Because this is really what you are asking for when you invest in this company.

It is up to each person to decide



which companies meet their criteria. For example, some years ago Warren Buffett had the opportunity of investing in a US company that makes chewing tobacco. Even though he thought that it would be a profitable investment, he declined because he did not feel comfortable with it. On the other hand, Buffett is a major shareholder in other companies that many of us might avoid such as Coca-Cola and Dairy Queen Ice Cream.

The third point is the easiest and the most fun. It is simply to take an active interest in the company. This includes such thing's as visiting its stores or using its products each chance that you have. How are its products selling? Do you notice any changes? Are they having to drop their prices to keep up the revenue? You can also look at its website, read any recent announcements, and even attend its annual meetings whenever possible. Observe what management is saying, what is the overall tone? Are there any women on the board or in senior management roles, and so on?

The power of your dollars

The goal is to get a better understanding of what makes the company "tick." There will be two outcomes:

1. You will be in a better position to know if the company is meeting your ethical requirements,
2. You will get a sense of the health of the company to know whether to sell your shares, stay the same, or buy more.

Some of the areas that you might be concerned about are the manufacture and sale of military weapons systems, the manufacture and sale of alcohol or tobacco products, the provision of gambling products or services, the development and use of genetically-engineered foods or revenues gained from the nuclear energy industry. Then there is the area of labour relations and the exploitation of labour laws in our own country as well as developing countries.

Of course every person has his or her own ideas about what are the most important issues. Even then, it is impossible to completely evaluate a company to ensure that it meets all your criteria. There are no perfect companies.

Being a conscious investor means starting from wherever you are and taking whatever steps you can to move away from companies that you don't feel comfortable with and move towards those that, as a virtual owner, you can talk about with pride. In this way your investing will be more successful and more enjoyable - as well as helping to create a better and more just society. Remember the Ethiopian proverb, "when spider webs unite, they can tie up a lion." ■

ETHICAL INVESTMENT TIP

Look into your current superannuation fund to see if it provides its members with an opportunity to invest in an Ethically Balanced Fund. You may have the option and not even know it. If not, find a fund that does help support those companies that are doing the right thing.

Dr John Price is the developer of Conscious Investor, an investment system that incorporates the principles in the above article. More details can be found at www.consciousinvestor.com