

\*See box, page 46, for representative indexes.

## What is Stakeholder Theory, and Why Should I Care?

*In this article, by Ramon P. DeGennaro<sup>1</sup>, AIER visiting scholar, we address the notion of stakeholder value. The concept has gained traction, and investors should be alert to its potential implications regarding the longstanding notion of shareholder value as well as future economic growth.*

According to R. Edward Freeman, “A stakeholder in an organization is (by definition) any group or individual who can affect or is affected by the achievement of the organization’s objectives.” (See *Strategic Planning: a Stakeholder Approach*, Boston: Pitman Publishing, 1984, p.46). For corporations, his definition could include competitors, workers, customers, and future generations, to name a few. It is conceivable that even entities such as universities, which could enroll a corporation’s employees if they were laid off, could be considered stakeholders. Corporations pay taxes — so are taxpayers included? Readers may want to draw the line somewhere else. This nebulous definition is a particular weakness of stakeholder theory to which we will return.

Setting aside its broad scope, the term stakeholder, per se, is benign. But if it is used to assert that corporate managers should seek to maximize stakeholder value, rather than shareholder value, investors beware. As we will see, many of the laudable goals of stakeholder theory, such as treating workers, vendors, and customers fairly, are already subsumed by the mandate to *maximize* shareholder value. But to ask management to maximize these constituents’ varying interests while doing the same for the shareholder is to ask the impossible.

Moreover, I argue that stakeholder theory undermines a free and prosperous society. So, ironically, it is dangerous not just to investors but to all the various parties it claims to champion.

Why? Stakeholder theory shields bad managers from responsibility, undermines property rights, and invites corruption and rent-seeking.

Begin with shielding bad managers from responsibility. The world is competitive. People like to compete and like to watch others compete. How can we separate winners from losers? In some cases, it’s easy. We knew that Michael Jordan was a fabulously successful basketball player by looking at the scoreboard. Most of the time, at the end of the game, Jordan’s team had scored more points than the opponent’s team. He was the winner.

(continued next page)

### Rates of Interest

As of June 23, 2021

#### Government Obligations<sup>1</sup>

|                           |        |
|---------------------------|--------|
| Fed Funds Rate            | 0.10%  |
| 3-Month Treas. Bill       | 0.04%  |
| 10-Yr. Treas. Note        | 1.48%  |
| 30-Yr. Treas. Bond        | 2.10%  |
| 10-Yr. TIPS               | -0.83% |
| Muni Bonds - Nat'l 10-Yr. | 0.95%  |

#### Mortgage Rates<sup>2</sup>

|             |       |
|-------------|-------|
| 15-Yr Fixed | 2.24% |
| 30-Yr Fixed | 2.93% |

#### Banking<sup>3</sup>

|              |       |
|--------------|-------|
| Savings      | 0.06% |
| Money Market | 0.09% |
| 12-month CD  | 0.14% |

[1] Federal Reserve, fmsbonds.com. Annualized Rates. Notes, bonds, TIPS reflect yield to maturity.

[2] Freddie Mac. Average (National average mortgages with 0.7 points).

[3] FDIC. Average national rates, non-jumbo deposits (<\$100k).

How do we know that a business is successful? In the long run, the only way a business can succeed is to convince customers that its product or service is worth more than it costs to produce.

[According to Isabel von Kessel](#), the raw materials that went into an iPhone 6 were worth just \$1.03. Today, such an outdated phone still costs over \$100. Even allowing for labor and other expenses, it's clear that the market's scorecard showed that Apple made its shareholders a lot of money. Apple accomplished this by turning something of low value into something of much greater value. Apple made society better off by growing the pie.

Shareholder wealth maximization is about *growing* the pie. Companies that convince consumers to purchase their products instead of competitors' must be producing a better product, or at a lower price. Stakeholder theory, in contrast, is about *dividing* the pie.

Some stakeholder theory advocates say that people would like a company more and buy its products if the company, for example, took better care of the environment. That is certainly true for some firms and products. But this is simply a specific way to maximize shareholder value. Attributing this to stakeholder theory is just a new name for an old idea. Other than appealing to a nebulous concept, like fairness, stakeholder theory advocates rarely give reasons why managers should consider stakeholders, except to say that it will be good in the long run. In that case, though, it's just a new name for a special case of shareholder wealth maximization.

But what if advocates of stakeholder theory claim that management is short-sighted, and underestimates the value of supporting the stakeholders' favored cause? In this case, these advocates are claiming to know more about operating a company than the company's managers, who work full-time running the company. This seems unrealistic.

However, both wealth maximization advocates and stakeholder advocates should agree on one thing: wealth maximization coincides with the highest standard of living in history. According to the Pew Research Center, over 96% of Americans owned a cell phone as of June 2019. About 90% enjoy air-conditioning. The World Bank says that for every 100 people in the US, there are 91 vehicles on the road. The poorest decile in the US today live better than the upper-middle

class of just a few decades ago.

Why do stakeholder advocates focus on dividing the pie, instead of growing it? Perhaps they want corporations to behave like a government. That is, they believe that businesses should solve policy problems, like pollution, even if they make tacos. These advocates expect stakeholders to be given rights, like citizens get just by being citizens. One of those rights, presumably, is to dictate how other people - shareholders and their managers - operate their own business.

Viewing corporations as a means of implementing social policy is not new. Depending on the definition of social policy, examples exist from centuries ago. In its more modern context, the term traces to Howard Bowden, author of *Social Responsibilities of the Businessman* (1953). Bowden challenged the view that economies (businesses) create wealth, and government redistributes it via laws and regulations such as imposing taxes. The thought seems to be that corporations should behave like wise and benign governments. Governments, though, set policy through legislation and regulations. Private citizens must comply with those rules but need not go beyond them. By law, a person may not litter. But they need not pick up someone else's litter. A corporation, by law, may not pollute more than regulations allow. But it need not clean up someone else's pollution, either.

## Private Property

Stakeholder proponents might be confused by the corporate veil. Corporations are, after all, nothing more than a legal entity. Consider the following thought experiment.

Suppose that you operate your delivery service as a sole proprietorship. You take your delivery van to the repair shop for an oil change. The mechanic notices that your tires are worn and decides that they might cause an accident. Without consulting you, he replaces them and bills you. Is this proper? Are you responsible for the cost of the tires? Few stakeholder advocates would say that the mechanic is right, and that you must pay for the tires he installed without your permission.

Now, suppose that you incorporate your business. AAA Delivery Service becomes AAA Delivery Service, Incorporated. Consider the same scenario at the

repair shop. Is this different?

Most people would say no. The mechanic has no right to decide whether to install tires on a van that is not his own, without permission. The van is *your* property either way. As the proprietor, the van is legally yours. As the corporate owner, the van is legally owned by the corporation, but because you are the sole owner of the corporation, you own everything that the corporation owns. The corporate shell makes legal ownership a distinction without an economic difference. The mechanic cannot bill you for repairs made without your consent, even if, in his professional judgement, the repairs are necessary to protect society. Wrapping a corporate shell around the business has no bearing on your right to decide how you conduct your affairs with your own property.

## Stakeholder Theory is Unworkable

Even if stakeholder theory can be justified on grounds other than wealth maximization, the definition given above (or any other definition available) shows that it is unworkable. Recall, "A stakeholder in an organization is (by definition) any group or individual who can affect or is affected by the achievement of the organization's objectives." Stakeholder theory offers no guidance on how the appropriate interest groups should be selected, and how they rank. For example, higher pay for employees takes resources that could otherwise be dedicated to reducing pollution during production. The pie is only so large. How do we decide which group gets priority? In addition, some individuals could be included in more than one class of stakeholders. For example, customers might be employees. As customers, they want quality products at low prices. But this means less is available to pay employees. How does stakeholder theory help us decide?

The noted French economist, Frederic Bastiat, famously said, "The bad economist confines himself to the visible effect; the good economist takes into account both the effect that can be seen and those effects that must be foreseen." In the context of stakeholder activism, this means that advocates of stakeholder theory may not get what they hope to get. Suppose, for example, that stakeholder advocates want to increase the number of banks owned by minorities. They convince managers to transfer

ownership of several banks. Stakeholder activists presumably are happy to see this. But what else might happen? Harold A. Black, M. Cary Collins, and Ken Cyree, writing in the *Journal of Financial Services Research*, reported the results of their study on black-owned banks. Their article, "Do Black-Owned Banks Discriminate against Black Borrowers?", says, "...when borrower race is controlled and the differences in treatment based on bank ownership are examined, black-owned banks are more likely than white-owned banks to reject similarly situated black applicants." Yes, black applicants are less likely to receive a loan from black-owned banks. If this generalizes to the newly black-owned banks, then stakeholder activists will have forced minority borrowers to pay the price for their activism.

Another example is the money management firm Blackrock, which often touts its stakeholder credentials. Blackrock, however, also invests in Chinese companies. These companies typically compare unfavorably to US firms along common stakeholder metrics, such as environmental damage and worker conditions. How can a company balance this? How do we keep score?

Or consider Amazon, which employs more than 1.3 million people. Other stakeholders include hundreds of millions of customers -- Amazon Prime alone has over 150 million subscribers! Add to these their families. Where in the hierarchy of stakeholders are retirees, taxpayers, and, therefore, taxpayer-funded institutions like schools? This doesn't even touch less pecuniary issues such as the environment, racism, sexism, classism, etc. Who decides?

Stakeholder proponents invariably respond, "A wise person." This typically means, "One who agrees with me." Stakeholder activists always assume that someone who supports their position will hold the whip hand. They, not their opponents, will decide just which stakeholders receive favored treatment.

## The Danger

Despite its lack of justification, stakeholder theory is currently enjoying a resurgence in acceptance. This makes it important to highlight its dangers.

Stakeholder theory's advocates cloak their message in unobjectionable terms, such as "justice," "social welfare," and "sustainability," with good reason.

First, they are no doubt sincere. Second, this language sways others to their side. Who can oppose "justice," "social welfare," and "sustainability"? Yet, the real implication of stakeholder theory is fundamentally opposed to the American economic and legal system. American prosperity crucially depends on the right of people to own property, and, within the constraints of law, to use it as they see fit. You can choose to drive your car to work, or you can choose to use it to take the family on vacation. I can sew a tear in a blanket and continue to use it, or I can use it without repairing it. Your car is your property, and my blanket is mine. You can choose to invest conservatively and sleep well, and I can sink everything I own into a risky venture that may cost me my entire savings, and many years of hard labor, for the chance to produce a better product that will make me rich. Within the constraints of the law, we can do what we want with our property.

Do we want to preserve a society based on personal property, or not? Stakeholder theory argues that the owners of assets held in corporate form cannot use them in the way they wish. The alternative to personal property is some form of socialism or communism. Whether in Cuba, North Korea, Venezuela, or the former Soviet Union, collectivism has failed throughout history. Even China, which has experienced rapid growth in recent decades, only began to unlock its potential when it began to allow limited property rights. To paraphrase the noted author Nassim Taleb, a system based on private property lets you notice the flaws and hides the benefits. All other systems hide the flaws and show the benefits. These other systems have led to poverty around the world, without fail. Why would destroying property rights work this time if it has failed in all other cases?

Stakeholder theory is also dangerous because it removes a key concept in corporate governance: accountability. Corporate management is accountable to shareholders. Stakeholder theory says that managers are accountable to a much larger, poorly defined, group. This allows managers to avoid respon-

sibility for outcomes. "Yes," they can say, "We lost your money, but we donated to a certain social cause that we deemed to be worthy. You cannot fire us for that." Or perhaps, "We didn't meet our production and sales targets because we had to lay off employees, but we did give some of the remaining workers raises." Bad managers will be able to deflect criticism for poor performance by appealing to subjective criteria to justify bad outcomes. They were merely serving their stakeholders, and it isn't their fault if one group, the shareholders, aren't happy. By allowing bad managers to escape accountability instead of being replaced, the economy and society will suffer. No one wants to invest in a poorly run company without expecting a large return. That translates into lower stock prices and higher costs of capital for business. More expensive capital makes it harder to expand, hire more employees, and invest in developing better products.

True, stakeholder advocates can claim that they do not intend to substitute government ownership or communal ownership for private ownership. After all, they argue, we allow the government to infringe on property rights to some extent already. We impose speed limits on drivers; require occupational licenses; assess taxes; and countless other ways. Stakeholder advocates just want to add diluting shareholder rights in favor of other stakeholders to the list.

Even this, though, is dangerous. Aside from the higher cost of capital and reduced investment that it implies, such a framework smacks of corporatism. Corporatism, best known as practiced

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"That concludes the annual report, I will now fend off questions from the stockholders."

in Italy under its fascist dictator, Benito Mussolini, certainly sounds appealing: cooperation, or at least collaboration, among different interest groups drives corporate decisions. Those interest groups can include employees (often through labor unions), consumers, management, and others. Importantly, the state supervises and participates in this process. Employees and management, though, want higher pay and better working conditions, which runs counter to the goals of consumers, who want better products at a lower cost. Conflicts among groups are inevitable. Importantly, the winner need not be the group supporting the best interests of society, as measured on some hypothetical scale. Instead, the most politically powerful group decides. These groups are people, after all, who are subject to self-dealing, backroom deals, and rent-seeking. This is fertile soil for corruption, as interest groups trade votes for government subsidies. True, this can happen if shareholders are deciding corporate policy, but at least shareholders are playing with their own money.

Stakeholder theory is also an invitation to conflict. As noted above, proponents of stakeholder capitalism always assume that they will be the ones deciding which activities are socially acceptable. They never consider the case

in which their opponent gets to decide who the stakeholders are, and what the socially proper path is. But that is not all. As early as 1932 (stakeholder theory is not new!), A.A. Berle wrote:

“The only thing that can come out of it, in any long view, is the massing of group after group to assert their private claims by force or threat—to take what each can get, just as corporate managements do. The laborer is invited to organize and strike, the security holder is invited either to jettison his corporate securities and demand relief from the state, or to decline to save money at all under a system which [sic] grants to someone else power to take his savings at will. The consumer or patron is left nowhere, unless he learns the dubious art of boycott. This is an invitation not to law or orderly government, but to a process of economic civil war.”<sup>2</sup>

### A Solution

Can there be peace between those who favor shareholder wealth maximization and stakeholder capitalism? Happily, the answer is yes. If you want to consider social justice ideas, then at least two viable paths already exist. First, if you have money to invest, then choose to fund a Benefit corporation instead of a C corporation. Benefit corporations

are not held to the goal of shareholder wealth maximization. This means that stakeholder advocates have no need to upset the applecart of shareholder wealth maximization that has lifted billions out of poverty. A list of Benefit corporations is available [online](#).

Certified B corporations are distinct from Benefit corporations but appeal to similar tastes. Certified B corporations have been [certified by a private entity](#) to adhere to the B Corp Declaration of Interdependence. You can also find a list of these companies [online](#).

A second way to support social causes without abandoning our existing system is available to anyone, even those unable to invest. That is, by patronizing favored companies. If you want to encourage companies to treat workers better, then buy the products of those that do, taking care to avoid those that merely say that they do. Then, convince others to emulate you.

The late Walter Williams wrote, “The act of reaching into one’s own pockets to help a fellow man in need is praiseworthy and laudable. Reaching into someone else’s pocket is despicable.” Especially given that simple alternatives like Benefit corporations are available, stakeholder activists should ask how reaching into shareholders’ pockets is any different.

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2. Berle, A. A. “For Whom Corporate Managers Are Trustees: A Note.” *Harvard Law Review* 45, no. 8 (1932): 1365-372.

## MARKETS ARE STRONG FOR GOOD REASON

Since the year began, U.S. stocks have regularly hit new highs. The S&P 500 recently crossed 4,000 for the first time, and the Dow Jones Industrial Average nearly broached 35,000. In the last year, coming off March pandemic lows, the U.S. market has increased by more than 60 percent. Small companies, as represented by the Russell 2000 Index, have risen more than 90 percent. These strong returns have led many pundits to conclude that stocks are relatively “expensive.”

Stock market valuations matter to most households, and investors are often taught that what goes up must come down. If we want to buy low and sell high, then what are we supposed to do when the price of stocks is perceived to be high already? Obviously, it's better to buy stocks when they are “cheap”. After

this recent run, they might seem pricey. But there’s good reason that stock prices are high. The future is unknowable, but investors should understand that while stock market valuations *change* randomly, market valuations themselves are not arbitrary.

Despite widespread job losses, many people actually increased their savings during the recent economic downturn. The personal savings rate is difficult to estimate reliably, but it appears to have increased while the economy was shut down. The government put a lot of money in people’s pockets through stimulus payments, while shopping and in-person dining were severely restricted. But what is not spent is saved, by definition. Early evidence suggests that people are using these savings to buy cars, go to restaurants, and generally

increase discretionary spending, both locally and on-line. Investors appear to be confident that this increased economic activity will continue. Let’s explore some different sectors of the economy and why market prices have risen.

Stock prices for airlines, hotels, retailers, restaurants, automakers, and entertainment companies declined sharply during the pandemic. However, investors have now become enthusiastic about the prospects for growth amongst many of these companies. Total vehicle sales for April 2021 were the highest since 2005. Meanwhile retail sales have already recovered to pre-pandemic levels. Current valuations appear to reflect investor confidence that sales and earnings will rebound vigorously in coming months and years.



Early in the pandemic, the stock prices of tech giants such as Apple, Amazon, Microsoft all fell precipitously. At the time, bad news regarding the economy was pervasive; risk was high. But it quickly became clear that the market for “big tech” products and services was hardly impacted, and even growing. The share prices of these tech companies have recovered with fervor, as investors favored these growth stocks.

Oil demand and prices plummeted in the middle of last summer because car and airplane travel declined rapidly. Oil prices fell to as low as \$25 per barrel but have since recovered to over \$60 per barrel as demand has increased. Stocks of oil companies have risen as well. The future for alternative energy companies is bright as well, as the current political climate favors a continuance of government subsidies. The prices of both fossil fuel energy and clean energy stocks have increased as investors perceive this growth in demand will continue.

Financial companies enjoy substantial revenue and earnings growth when interest rates rise. As interest rates fell during the pandemic, bank stocks fell as well. After hitting a low of roughly 0.5 percent last August, the yield on the 10-year Treasury has since increased to 1.6 percent. As the economy continues to recover and interest rates inch higher, earnings of many financial firms will likely improve. Bank stock prices have risen quickly as these prospects for higher earnings have become apparent.

The pandemic disrupted supply chains and labor availability in the manufacturing sector. This is starting to change. The Factory Purchasing Managers Index recently hit the highest level since 1983. The index of new orders and index of production hit the highest levels since 2004. This rapid turnaround will help a sector that was left for dead. Stocks of manufacturing and industrial companies have already started to rise, for good reason.

Our technological pace of change seems to have accelerated further since the pandemic began, in part out of necessity. Many businesses became virtual almost overnight. Artificial intelligence and machine learning are no longer just conceptual; they are emerging as real businesses. Companies that exist primarily on the internet attract thousands of users every day. Meanwhile, communications companies have become central to our ability to converse with our friends and families. Tech and communications companies have benefited from this evolution, and their stocks have risen in anticipation of continued growth.

Home sales and prices have soared. The median home sale price in the United States increased by 6 percent between Q4 2019 and Q4 2020. Homebuilders can barely keep up with demand. The stocks of homebuilders and related industries have risen alongside the increased demand for new housing.

The pandemic shined a spotlight on the health care industry, and health care innovation proved impressive. Pfizer, J&J,

and Moderna rolled out COVID vaccines faster than previously thought possible. This all happened against the ongoing backdrop of a country that is getting older and in greater need of health care services. The average age of Americans has increased by about 10 years since 1970. As potential demand for health care services and products rises, so too have the prices of health care stocks.

All this actual and potential economic progress comes with the threat of rising price inflation. Consumer prices have risen sharply, but it remains to be seen whether this is transitory or a long term trend fueled by expansive monetary and fiscal policies.

In short, the stock market is close to its all-time high because expectations for corporate earnings are high. What the market will do in the short term is, as always, speculation. The market constantly reappraises future expectations of earnings, interest rates, and inflation, based on news as it emerges. By definition, the news cannot be predicted. However, the market currently carries a high valuation because expectations are generally positive.

Owning shares of a company through a systematically managed ETF or mutual fund means that you effectively own a small fraction of that company, as well as a portion of hundreds or thousands of other firms. For most households, diversified ownership in publicly traded corporations is the optimal means of building long term wealth, despite the volatility inherent in the stock market.

## INVESTING: FREE TO CHOOSE

For many people, investing involves considerations beyond risk and return. There is no optimal one-size-fits-all portfolio allocation because each investor’s goals are unique and often complicated. Those goals often must be tailored to life’s circumstances, such as a pending divorce, or a special needs trust for a child. But they can also entail preferences involving environmental, social or governance (ESG) matters, or interest in public Benefit corporations (B corps).

We have previously assessed [ESG investing](#). When we form an allocation plan for new clients, we begin with the entire universe of investable securities. So by default we do not screen out securities of firms that fail to meet ESG-related criteria. But for clients who want to limit or eliminate their exposure to

such firms, we can turn to mutual funds designed to capture optimal risk adjusted returns within a smaller universe of ESG-screened securities. This approach entails lower expected returns versus a non-ESG portfolio, but ESG-inclined investors may well be willing to accept this trade-off.

Other investors may prefer firms that embrace stakeholder value. As we explain in the article nearby, such investors may wish to invest in B corps. The universe of such firms is very small, and there is not yet enough data to assess risk and return within this sector empirically, so we cannot accommodate such investors in our advisory service. We doubt that even a portfolio comprised of every firm in the Benefit corporation universe would allow adequate diversification to meet most investors’ risk-return

preferences. But those willing to bear this (otherwise-diversifiable) risk can do so through a self-managed approach.

Clearly there is no single *portfolio* that is optimal for every investor. But there is an optimal *approach* to forming a portfolio that is systematic, consistent, and empirically sound, that can accommodate the vast expanse of investor preferences. This begins with a thorough review of each client’s individual goals and desires. Investors seeking financial advice should consider investment professionals who relentlessly focus on these crucial factors rather than those who dwell on matters beyond their control, such as forecasting markets or picking “winning” securities.

**THE HIGH-YIELD DOW INVESTMENT STRATEGY**

**HYD Model Portfolio**

As of June 15, 2021

|                     | Rank | Yield (%) | Price (\$) | Status    | —Percent of Portfolio— |                             |
|---------------------|------|-----------|------------|-----------|------------------------|-----------------------------|
|                     |      |           |            |           | Value (%)              | No. Shares (%) <sup>1</sup> |
| Chevron             | 1    | 4.86      | 110.3      | Buying    | 22.79                  | 17.03                       |
| IBM                 | 2    | 4.39      | 149.36     | Holding** | 23.69                  | 13.07                       |
| Verizon             | 3    | 4.38      | 57.29      | Holding** | 9.37                   | 13.47                       |
| Dow, Inc.           | 4    | 4.17      | 67.22      | Holding** | 27.61                  | 33.85                       |
| Walgreen Boots      | 5    | 3.45      | 54.24      | Holding   | 5.88                   | 8.94                        |
| Exxon Mobil         | NA   | 5.60      | 64.33      | Selling   | 10.65                  | 13.64                       |
| Cash (6-mo. T-Bill) | N/A  | N/A       |            |           | 0.01                   | N/A                         |
| Totals              |      |           |            |           | 100.00                 | 100.00                      |

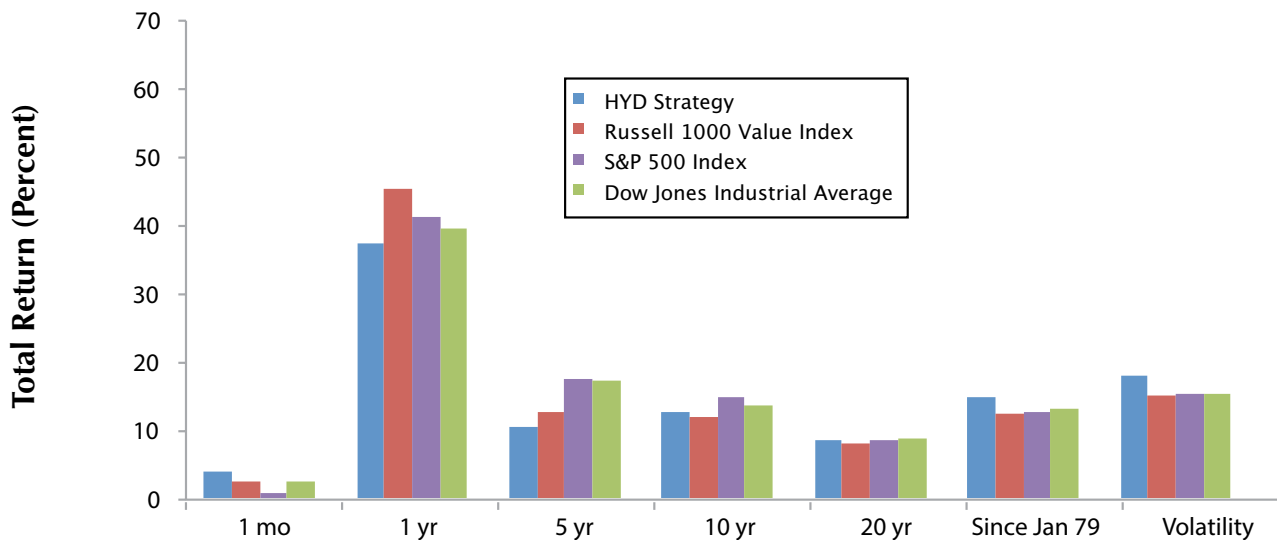
\*\*Currently indicated purchases approximately equal to indicated purchases 18 months ago. <sup>1</sup>Because the percentage of each issue in the portfolio by value reflects the prices shown in the table (closing prices on the date indicated), we are also showing the number of shares of each stock as a percentage of the total number of shares in the entire portfolio.

Subscribers can find a full description of the strategy and methodology in the “Subscribers Only” (Log in required) section of our website: [www.americaninvestment.com](http://www.americaninvestment.com).

**Comparative Hypothetical Total Returns (%) and Volatility**

The data presented in the table and chart below represent total returns generated by a hypothetical HYD portfolio and by benchmark indexes for periods ending May 31, 2021\*. Returns for the 5-, 10- and 20-year periods and since 1979 are annualized, as is the volatility (standard deviation) of returns.

|                              | <u>1 mo.</u> | <u>1 yr.</u> | <u>5 yrs.</u> | <u>10 yrs.</u> | <u>20 yrs.</u> | <u>since Jan 79</u> | <u>Volatility since 1979</u> |
|------------------------------|--------------|--------------|---------------|----------------|----------------|---------------------|------------------------------|
| HYD Strategy                 | 3.69         | 36.50        | 10.07         | 12.28          | 8.28           | 14.57               | 17.57                        |
| Russell 1000 Value Index     | 2.33         | 44.38        | 12.33         | 11.51          | 7.67           | 12.10               | 14.81                        |
| S&P 500 Index                | 0.70         | 40.32        | 17.16         | 14.38          | 8.35           | 12.31               | 15.04                        |
| Dow Jones Industrial Average | 2.21         | 38.79        | 16.88         | 13.37          | 8.53           | 12.72               | 14.93                        |



\*Data assume all purchases and sales at mid-month prices (+/- \$0.125 per share commissions), reinvestment of all dividends and interest, and no taxes. Model HYD calculations are based on hypothetical trades following a very exacting stock-selection strategy. They do not reflect returns on actual investments or previous recommendations of AIS. Past performance may differ from future results. Historical performance results for the Russell 1000 Value Index, the Dow Jones Industrial Average and the S&P 500 Index do not reflect the deduction of transaction and/or custodial charges, or the deduction of an investment-management fee, the incurrence of which would have the effect of decreasing historical performance results. HYD Strategy results reflect the deduction of 0.725% management fee, the annual rate assessed to a \$500,000 account managed through our Professional Asset Management service.

Unless otherwise specified returns and data cited within this publication are derived from the following sources: U.S. stock benchmarks: U.S. Marketwide - Russell 3000 Index; U.S. Large Cap Stocks - Russell 1000 Index; U.S. Large Cap Value - Russell 1000 Value Index; U.S. Large Cap Growth - Russell 1000 Growth Index; U.S. Midcap Stocks - Russell Midcap Index; U.S. Small Cap Stocks - Russell 2000 Index; U.S. Small Cap Value - Russell 2000 Value Index; U.S. Small Cap Growth - Russell 2000 Growth Index; U.S. Microcaps - Russell Microcap Index. Fixed income benchmarks: Cash & Equivalents - ICE BofAML US 3-Month Treasury Bill Index; U.S. Short-Term Investment Grade - Bloomberg Barclays US Government/Credit Bonds Index 1-5 Years; U.S. Bonds - Bloomberg Barclays US Aggregate Bond Index; U.S. Government Bonds - Bloomberg Barclays US Government Bond Index; TIPS - Bloomberg Barclays US TIPS Index; Municipal Bonds - Bloomberg Barclays Municipal Bond Index 5 Years; Foreign Bonds (hedged) - FTSE Non-USD World Government Bond Index 1-5 Years (hedged to USD). Foreign stock benchmarks: All returns in U.S. dollars. Developed Markets - MSCI World ex USA Index (net div.); Developed Markets Value - MSCI World ex USA Value Index (net div.); Developed Markets Growth - MSCI World ex USA Growth Index (net div.); Developed Markets Small Cap - MSCI World ex USA Small Cap Index (net div.); Developed Markets Small Cap Value - MSCI World ex USA Small Value Index (net div.); Developed Markets Small Cap Growth - MSCI World ex USA Small Growth Index (net div.); Emerging Markets - MSCI Emerging Markets Index (net div.); Emerging Markets Value - MSCI Emerging Markets Value Index (net div.). Real estate benchmarks: Global REITs - S&P Global REIT Index (net div.); U.S. REITs - S&P United States REIT Index (gross div.); International REITs - S&P Global ex US REIT Index (net div.). Gold benchmark: Gold London PM Fix Price. All data from DFA Returns 2.0 program, except Gold data from World Gold Council and Currency data from St. Louis Federal Reserve. Country performance provided by Dimensional Fund Advisors, based on respective indexes in the MSCI All Country World ex USA IMI Index (for developed markets) and MSCI Emerging Markets IMI Index. Sector returns represented by S&P 500 sectors.

## RECENT MARKET STATISTICS

| Precious Metals & Commodity Prices (\$)            |          |             |             |           | Recent Market Returns                                 |                     |                       |                 |                 |                        |                 |                 |   |
|--|----------|-------------|-------------|-----------|---|---------------------|-----------------------|-----------------|-----------------|------------------------|-----------------|-----------------|---|
|  | 6/15/21  | Mo. Earlier | Yr. Earlier | Prem. (%) | Data through May 31, 2021                             |                     |                       |                 |                 |                        |                 |                 |   |
|  |          |             |             |           | U.S. Stocks (Mktwd)                                   | Foreign Dev. Stocks | Foreign Emerg. Stocks | Global REITs    | U.S. Bonds      | Foreign Bonds (hedged) | Gold            |                 |   |
| Gold, London p.m. fixing                           | 1,865.10 | 1,838.10    | 1,710.45    |           | 0.46%   | 3.48%               | 2.32%                 | 1.36%           | 0.33%           | 0.04%                  | 7.79%           | ↑               |   |
| Silver, London Spot Price                          | 27.62    | 27.23       | 17.09       |           | 9.42%   | 9.45%               | 3.28%                 | 12.06%          | -0.14%          | 0.13%                  | 9.97%           | ↑               |   |
| Crude Oil, W. Texas Int. Spot                      | 72.06    | 65.32       | 37.07       |           | ↑   | ↑                   | ↑                     | ↑               | ↓               | ↑                      | ↑               | ↑               |   |
| Coin Prices (\$)¹                                  |          |             |             |           | 1 year  | 43.91%              | 39.60%                | 51.00%          | 35.68%          | -0.40%                 | 0.74%           | 10.21%          | ↑ |
| American Eagle (1.00)                              | 1,944    | 1,916       | 1,783       | 4.25      | ↑   | ↑                   | ↑                     | ↑               | ↓               | ↑                      | ↑               | ↑               |   |
| Austrian 100-Corona (0.9802)                       | 1,828    | 1,802       | 1,677       | 0.00      | 5 year (annualized)                                   | 17.36%              | 9.90%                 | 13.88%          | 5.23%           | 3.25%                  | 2.02%           | 9.43%           | ↑ |
| British Sovereign (0.2354)                         | 439      | 433         | 403         | 0.00      | ↑   | ↑                   | ↑                     | ↑               | ↑               | ↑                      | ↑               | ↑               |   |
| Canadian Maple Leaf (1.00)                         | 1,910    | 1,883       | 1,755       | 2.41      | 15 year (annualized)                                  | 10.62%              | 4.52%                 | 6.58%           | 4.92%           | 4.39%                  | 2.64%           | 7.46%           | ↑ |
| Mexican 50-Peso (1.2057)                           | 2,249    | 2,216       | 2,062       | 0.00      | Best  | 62.5%               | 57.2%                 | 91.6%           | 85.7%           | 13.8%                  | 7.1%            | 54.6%           |   |
| Mexican Ounce (1.00)                               | 1,883    | 1,856       | 1,728       | 0.97      | During:   | 04/2020-03/2021     | 04/2003-03/2004       | 03/2009-02/2010 | 04/2009-03/2010 | 11/2008-10/2009        | 07/2008-06/2009 | 06/2005-05/2006 |   |
| S. African Krugerrand (1.00)                       | 1,910    | 1,883       | 1,755       | 2.41      | Worst   | -43.5%              | -50.3%                | -56.6%          | -59.5%          | -2.5%                  | 0.1%            | -28.0%          |   |
| U.S. Double Eagle-\$20 (0.9675)                    |          |             |             |           | During:   | 03/2008-02/2009     | 03/2008-02/2009       | 12/2007-11/2008 | 03/2008-02/2009 | 09/2012-08/2013        | 04/2010-03/2011 | 12/2012-11/2013 |   |
| St. Gaudens (MS-60)                                | 1,820    | 1,737       | 1,764       | 0.86      | Best and worst one-year returns, Jan. 2001 - May 2021 |                     |                       |                 |                 |                        |                 |                 |   |
| Liberty (Type II-AU50)                             | 1,807    | 1,757       | 1,656       | 0.14      |   |                     |                       |                 |                 |                        |                 |                 |   |
| Liberty (Type III-AU50)                            | 1,807    | 1,732       | 1,745       | 0.14      |   |                     |                       |                 |                 |                        |                 |                 |   |
| U.S. Silver Coins (\$1,000 face value, circulated) |          |             |             |           |   |                     |                       |                 |                 |                        |                 |                 |   |
| 90% Silver Circ. (715 oz.)                         | 19,461   | 18,325      | 12,192      | n/a       |   |                     |                       |                 |                 |                        |                 |                 |   |
| 40% Silver Circ. (295 oz.)                         | 7,338    | 6,947       | 4,297       | n/a       |   |                     |                       |                 |                 |                        |                 |                 |   |

¹Note: Premium reflects percentage difference between coin price and value of metal in a coin. The weight in troy ounces of the precious metal in coins is indicated in parentheses. Premiums will vary; these indicated premiums are provided in The CDN Monthly Greysheet.

## THE DOW JONES INDUSTRIALS RANKED BY YIELD\*

| Ticker Symbol      | Market Prices (\$) |         |         | 12-Month (\$) |        | Latest Dividend Amount (\$) | Record Date | Payable Date | Indicated Annual Dividend (\$) | Yield† (%) |      |
|--------------------|--------------------|---------|---------|---------------|--------|-----------------------------|-------------|--------------|--------------------------------|------------|------|
|                    | 6/15/21            | 5/15/21 | 6/15/20 | High          | Low    |                             |             |              |                                |            |      |
| Chevron            | CVX                | 110.30  | 109.47  | 91.23         | 113.11 | 65.16                       | 1.340       | 5/19/21      | 6/10/21                        | 5.360      | 4.86 |
| IBM                | IBM                | 149.36  | 144.60  | 121.65        | 152.84 | 105.92                      | 1.640       | 5/10/21      | 6/10/21                        | 6.560      | 4.39 |
| Verizon            | VZ                 | 57.29   | 58.87   | 56.15         | 61.95  | 52.85                       | 0.627       | 7/9/21       | 8/2/21                         | 2.508      | 4.38 |
| Dow Chemical       | DOW                | 67.22   | 69.83   | 41.98         | 71.38  | 38.73                       | 0.700       | 5/28/21      | 6/11/21                        | 2.800      | 4.17 |
| Walgreen's         | WBA                | 54.24   | 54.71   | 41.49         | 57.05  | 33.36                       | 0.468       | 5/21/21      | 6/11/21                        | 1.870      | 3.45 |
| Merck              | MRK                | 75.70   | 78.29   | 74.02         | 83.78  | 68.44                       | 0.650       | 6/15/21      | 7/7/21                         | 2.600      | 3.43 |
| Coca-Cola          | KO                 | 55.41   | 54.73   | 46.30         | 56.48  | 43.51                       | 0.420       | 6/15/21      | 7/1/21                         | 1.680      | 3.03 |
| 3M Company         | MMM                | 200.61  | 204.38  | 157.73        | 208.95 | 148.80                      | 1.480       | 5/21/21      | 6/12/21                        | 5.920      | 2.95 |
| Amgen              | AMGN               | 239.85  | 251.38  | 219.78        | 276.69 | 210.28                      | 1.760       | 5/17/21      | 6/8/21                         | 7.040      | 2.94 |
| Cisco              | CSCO               | 53.79   | 52.90   | 45.35         | 55.35  | 35.28                       | 0.370       | 7/6/21       | 7/28/21                        | 1.480      | 2.75 |
| Proctor and Gamble | PG                 | 134.65  | 138.01  | 116.69        | 146.92 | 115.04                      | 0.870       | 4/23/21      | 5/17/21                        | 3.480      | 2.58 |
| Johnson & Johnson  | JNJ                | 164.49  | 170.22  | 141.25        | 173.65 | 133.65                      | 1.060       | 5/25/21      | 6/8/21                         | 4.240      | 2.58 |
| Intel Corp         | INTC               | 57.99   | 55.35   | 60.10         | 68.49  | 43.61                       | 0.348       | 5/7/21       | 6/1/21                         | 1.390      | 2.40 |
| J P Morgan         | JPM                | 155.18  | 164.01  | 101.25        | 167.44 | 90.78                       | 0.900       | 7/6/21       | 7/31/21                        | 3.600      | 2.32 |
| Travelers          | TRV                | 154.62  | 160.51  | 114.85        | 162.71 | 105.67                      | 0.880       | 6/10/21      | 6/30/21                        | 3.520      | 2.28 |
| McDonald's         | MCD                | 236.35  | 231.72  | 189.49        | 238.18 | 178.88                      | 1.290       | 6/1/21       | 6/15/21                        | 5.160      | 2.18 |
| Home Depot, Inc.   | HD                 | 306.45  | 323.81  | 241.36        | 345.69 | 240.25                      | 1.650       | 6/3/21       | 6/17/21                        | 6.600      | 2.15 |
| Caterpillar        | CAT                | 219.46  | 242.22  | 123.61        | 246.69 | 121.45                      | 1.110       | 7/20/21      | 8/20/21                        | 4.440      | 2.02 |
| Honeywell          | HON                | 222.50  | 227.36  | 146.63        | 234.02 | 137.53                      | 0.930       | 5/14/21      | 6/4/21                         | 3.720      | 1.67 |
| Wal-Mart Stores    | WMT                | 140.00  | 139.49  | 118.08        | 153.66 | 118.02                      | 0.550       | 8/13/21      | 9/7/21                         | 2.200      | 1.57 |
| Unitedhealth Group | UNH                | 400.28  | 409.80  | 286.28        | 425.98 | 285.82                      | 1.450       | 6/21/21      | 6/29/21                        | 5.800      | 1.45 |
| Goldman Sachs      | GS                 | 371.30  | 368.57  | 206.31        | 393.26 | 185.52                      | 1.250       | 6/1/21       | 6/29/21                        | 5.000      | 1.35 |
| American Express   | AXP                | 166.27  | 157.15  | 103.95        | 168.58 | 89.11                       | 0.430       | 7/2/21       | 8/10/21                        | 1.720      | 1.03 |
| Microsoft Corp.    | MSFT               | 258.36  | 248.15  | 188.94        | 267.85 | 193.55                      | 0.560       | 8/19/21      | 9/9/21                         | 2.240      | 0.87 |
| Nike               | NKE                | 130.29  | 135.93  | 97.84         | 147.95 | 93.57                       | 0.275       | 6/1/21       | 7/1/21                         | 1.100      | 0.84 |
| Apple              | AAPL               | 129.64  | 127.45  | 342.99        | 145.09 | 87.82                       | 0.220       | 5/10/21      | 5/13/21                        | 0.880      | 0.68 |
| Visa Inc.          | V                  | 232.98  | 226.94  | 191.76        | 238.25 | 179.23                      | 0.320       | 5/14/21      | 6/1/21                         | 1.280      | 0.55 |
| Walt Disney        | DIS                | 175.86  | 173.70  | 117.08        | 203.02 | 108.02                      | 0.000       | No dividend  |                                | 0.000      | 0.00 |
| Salesforce         | CRM                | 242.58  | 217.58  | 178.61        | 284.50 | 180.00                      | 0.000       | No dividend  |                                | 0.000      | 0.00 |
| Boeing             | BA                 | 246.54  | 228.35  | 190.94        | 278.57 | 141.58                      | 0.000       | No dividend  |                                | 0.000      | 0.00 |

† Based on indicated dividends and market price as of 6/15/21. Extra dividends are not included in annual yields.

All data adjusted for splits and spin-offs. 12-month data begins 6/15/20.

**ASSET CLASS INVESTMENT VEHICLES**

**Data as of May 31, 2021**

**Fixed Income**

|                     | Security Symbol(s) (1)                      | Avg. Market Cap / Avg. Maturity | Number of Holdings | Expense Ratio (%) | Turnover (%) | Price-to-Book Ratio | Trailing 12-Mo. Yield (%) | Annualized Returns (%) |        |        | Tax Cost Ratio - 3 Years (%) (3) |
|---------------------|---|---------------------------------|--------------------|-------------------|--------------|---------------------|---------------------------|------------------------|--------|--------|----------------------------------|
|                     |   |                                 |                    |                   |              |                     |                           | 1-Year                 | 3-Year | 5-Year |                                  |
| Short-Term Bonds    | Vanguard Short-Term Bond Adm                | 2.90 yrs                        | 2673               | 0.07              | 49           |                     | 1.48                      | 0.92                   | 3.78   | 2.28   | 0.79                             |
| Short-Term Bonds    | SPDR Portfolio Short Term Corp Bd ETF       | 1.96 yrs                        | 1175               | 0.07              | 54           |                     | 1.57                      | 1.92                   | 3.64   | 2.57   | 0.93                             |
| Short-Term Bonds    | iShares 1-3 Year Treasury Bond ETF          |                                 | 90                 | 0.15              | 79           |                     | 0.53                      | 0.20                   | 2.69   | 1.59   | 0.60                             |
| Interm-Term         | Vanguard Total Bond Market Adm              | 8.50 yrs                        | 18594              | 0.05              | 79           |                     | 2.05                      | 0.12                   | 5.32   | 3.12   | 1.03                             |
| Interm-Term         | iShares Core US Aggregate Bond ETF          |                                 | 9607               | 0.04              | 179          |                     | 2.00                      | 0.06                   | 5.23   | 3.06   | 1.00                             |
| Tax-Exempt          | Vanguard Ltd-Term Tax-Exempt Inv            |                                 | 8131               | 0.17              | 31           |                     | 1.45                      | 2.37                   | 2.97   | 2.02   | 0.00                             |
| Tax-Exempt          | SPDR Nuveen Blimbg Barclays ST MunBd ETF    | 2.87 yrs                        | 1116               | 0.20              | 23           |                     | 1.11                      | 0.59                   | 2.51   | 1.52   | 0.01                             |
| Tax-Exempt          | Vanguard Interm-Term Tx-Ex Inv              |                                 | 11766              | 0.17              | 16           |                     | 2.20                      | 4.35                   | 4.84   | 3.19   | 0.00                             |
| Inflation-Protected | iShares TIPS Bond ETF                       |                                 | 49                 | 0.19              | 53           |                     | 1.34                      | 7.52                   | 6.52   | 4.20   | 0.75                             |
| Inflation-Protected | Vanguard Inflation-Protected Securities Inv | 7.70 yrs                        | 45                 | 0.20              | 48           |                     | 1.45                      | 7.85                   | 6.51   | 4.12   | 0.86                             |
| International       | Vanguard Total International Bond Adm       | 9.60 yrs                        | 6344               | 0.11              | 31           |                     | 0.92                      | 0.66                   | 4.00   | 3.08   | 0.98                             |

**Real Estate (REITs)**

|                     |   |         |     |      |    |      |      |       |       |      |      |
|---------------------|---|---------|-----|------|----|------|------|-------|-------|------|------|
| U.S. REITs          | Vanguard REIT Adm                         | 20.10 B | 175 | 0.12 | 8  | 2.81 | 3.22 | 30.64 | 12.99 | 8.32 | 1.46 |
| U.S. REITs          | SPDR Dow Jones REIT                       | 15.89 B | 117 | 0.25 | 17 | 2.43 | 3.32 | 33.03 | 8.97  | 6.18 | 1.60 |
| Int'l REITs         | Vanguard Global ex-US Real Estate Adm (2) | 6.41 B  | 709 | 0.12 | 11 | 0.92 | 0.85 | 24.00 | 3.48  | 6.35 | 1.54 |
| Int'l REITs         | iShares International Developed Property  | 6.81 B  | 406 | 0.48 | 8  | 0.97 | 2.18 | 26.76 | 4.61  | 5.88 | 1.71 |
| Global (incl. U.S.) | SPDR Dow Jones Global Real Estate ETF     | 11.72 B | 277 | 0.50 | 18 | 1.65 | 2.65 | 30.83 | 6.73  | 4.95 | 1.50 |

**U.S. Stocks**

|                   |                                 |          |      |      |    |      |      |       |       |       |      |
|-------------------|---------------------------------|----------|------|------|----|------|------|-------|-------|-------|------|
| Large Cap (blend) | Vanguard S&P 500 Adm            | 191.77 B | 508  | 0.04 | 4  | 4.01 | 1.39 | 38.06 | 17.62 | 17.25 | 0.45 |
| Large Cap (blend) | iShares Core S&P 500            | 185.18 B | 509  | 0.03 | 4  | 3.92 | 1.35 | 38.09 | 17.63 | 17.25 | 0.61 |
| Large Cap (blend) | iShares Russell 1000 ETF        | 141.09 B | 1024 | 0.15 | 5  | 3.81 | 1.21 | 39.84 | 17.90 | 17.40 | 0.56 |
| Large Cap Value   | Vanguard Value Adm              | 100.48 B | 339  | 0.05 | 10 | 2.52 | 2.13 | 37.88 | 13.26 | 13.72 | 0.65 |
| Large Cap Value   | iShares Russell 1000 Value      | 72.96 B  | 861  | 0.19 | 16 | 2.39 | 1.63 | 39.08 | 12.68 | 12.31 | 0.84 |
| Small Cap (blend) | iShares Core S&P Small-Cap ETF  | 2.35 B   | 607  | 0.06 | 16 | 2.05 | 0.92 | 62.75 | 12.13 | 15.93 | 0.49 |
| Small Cap (blend) | Schwab US Small-Cap ETF         | 3.89 B   | 1836 | 0.04 | 12 | 2.27 | 0.90 | 57.20 | 13.25 | 15.29 | 0.47 |
| Small Cap Value   | Vanguard Small Cap Value Adm    | 5.58 B   | 944  | 0.07 | 26 | 1.92 | 1.49 | 60.93 | 11.32 | 13.15 | 0.58 |
| Small Cap Value   | iShares Russell 2000 Value      | 2.46 B   | 1499 | 0.24 | 25 | 1.67 | 1.23 | 71.52 | 10.72 | 13.97 | 0.67 |
| Small Cap Value   | iShares Micro-Cap               | 0.88 B   | 1284 | 0.60 | 24 | 2.02 | 0.71 | 79.00 | 14.11 | 17.58 | 0.39 |
| Marketwide        | Vanguard Total Stock Market Adm | 107.44 B | 3783 | 0.04 | 8  | 3.73 | 1.29 | 41.18 | 17.66 | 17.44 | 0.46 |
| Marketwide        | Fidelity Total Market Index     | 107.93 B | 3673 | 0.02 | 6  | 3.72 | 1.21 | 41.14 | 17.60 | 17.41 | 0.74 |

**Foreign Stocks**

|                   |                                     |         |      |      |    |      |      |       |      |       |      |
|-------------------|-------------------------------------|---------|------|------|----|------|------|-------|------|-------|------|
| Developed Markets | Vanguard FTSE Developed Markets Adm | 29.72 B | 4021 | 0.07 | 3  | 1.69 | 2.02 | 36.85 | 8.94 | 10.74 | 0.77 |
| Developed Markets | iShares Core MSCI EAFE ETF          | 30.10 B | 2943 | 0.07 | 2  | 1.74 | 1.71 | 34.55 | 8.45 | 10.39 | 0.84 |
| Emerging Markets  | Vanguard Emerging Markets Stock Adm | 32.70 B | 4323 | 0.14 | 10 | 1.86 | 1.76 | 41.94 | 9.29 | 12.74 | 0.87 |
| Emerging Markets  | Schwab Emerging Markets Equity ETF  | 45.47 B | 1630 | 0.11 | 15 | 1.86 | 1.96 | 41.82 | 9.53 | 12.92 | 0.95 |

**Gold-Related Funds**

|           |                          |  |  |      |  |  |      |      |       |     |      |
|-----------|--------------------------|--|--|------|--|--|------|------|-------|-----|------|
| Gold ETFs | SPDR Gold Minishares     |  |  | 0.18 |  |  | 0.00 | 9.99 | n/a   | n/a | 0.00 |
| Gold ETFs | GraniteShares Gold Trust |  |  | 0.17 |  |  | 0.00 | 9.88 | 13.33 | n/a | 0.00 |

Data provided by the funds and Morningstar. (1) Some funds are available as mutual funds and ETFs, in which case both symbols are shown. In these cases, data represent the mutual fund. The ETF may offer a lower expense ratio and returns may deviate. For Vanguard funds, Adm indicates the Admiral share class is shown; Inv indicates the Investor share class is shown. (2) VGRXL includes a 0.25% fee on purchases and redemptions, which are paid directly to the fund. (3) This represents the percentage-point reduction in an annualized return that results from income taxes. The calculation assumes investors pay the maximum federal rate on capital gains and ordinary income. The calculation comes directly from Morningstar.

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