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## Greed is Good

*The Avaricious man is like the barren sandy ground of the desert which sucks in all the rain and dew with greediness, but yields no fruitful herbs or plants for the benefit of others. – Virgil*

The title of this newsletter was lifted from the 1987 Oliver Stone movie *Wall Street*. The character, a corporate raider named Gordon Gekko (played by Michael Douglas), delivers his greed as savior of the world speech to a group of stockholders in a company he is in the process of trying to control. The movie chronicled a year in the life of a young stock broker, Bud Fox (played by Charlie Sheen), who is at first spellbound by the trappings of wealth and status, but then sees the fetid under belly of Gekko's world and in the end extricates himself from that world and takes down Gekko along the way.

Rather than Greed is Good, I suggest that Greed is inevitable. Man is genetically wired to be greedy. Many use this greed to become successful, and along the way do great things for others – Tiger Woods covets Jack Nicklaus's record for most Majors, Steve Jobs wants everyone to own an iPhone. Tiger has used his fame and wealth to build the Tiger Woods Foundation which has helped jump start the education of thousands of underprivileged children. Steve Jobs has delivered game changing technology that has moved the telecommunications industry forward for all of us.

But then there is the dark side. Notable recent examples are Messr's Madoff and Staford. Both promised world beating returns to investors only to destroy families' life savings while lining their cashmere pockets.

What is as troubling to me as these spectacular disasters is what is going on in corporate board rooms on a daily basis. According to a May 11, 2009 Forbes article on executive pay *The Right Way to Pay*, 86% of S&P 500 companies use peer group pay as a primary consideration for CEO pay. This has created a Cabal of grossly overpaid, under committed bosses who jump from one job to another, pop their golden parachutes, and float comfortably to the ground while leaving shareholders with a pilot change in mid air.

According to Forbes, executive compensation has grown from 40 times average worker pay in 1980 to 433 times average worker pay at the end of 2007. If you do the math and assume that the average worker's pay at a given corporation is \$30,000, the CEO pay would be approximately \$13 million. Now, I'm not saying that there aren't CEO's out there worth that kind of money, but when we pay the President of the most powerful nation in the world (yup, that's still us) \$400,000 plus a \$50,000 annual expense account, these numbers seem more than a little skewed.

One of the companies that we use for research provides a Stewardship Grade. The intent of this grade is to provide insight into the policies of the board and CEO, and whether these actions have been favorable to shareholders. I recently found some research to suggest that being shareholder friendly also makes economic sense. According to Morningstar research, companies with a stewardship grade of "A" lost an average of 28% in 2008. However, those with lower stewardship grades fared far worse. Those companies with an average grade of "D" lost, on average, 47% during the year. At Access, we have always considered stewardship in our investment recommendations, but will provide additional emphasis in this area going forward.

Corporations are beginning to get the message. Some of the best are scaling back annual salaries of their executives in favor of stock option grants that vest over a period of years rather than the immediate vesting that many corporations dole out now. In addition, these options only become exercisable if certain targets for shareholder returns are met. Additionally, they are setting restrictions on golden parachutes requiring that the company be left in a better position than found, or the trailing compensation will be severely curtailed.

We will continue to vote with our feet on your behalf. If we believe that a company is abusing its shareholders we will get out of its stock. You also have a voice in this. Many corporations are now including a non-binding question regarding executive compensation with their proxies. Take the opportunity to let them know how you feel, and use the power that you've been given to vote your proxy. Bud Fox would be proud.

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