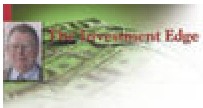
Hoe: Get Real
By Richard Hoe



Yeah, right — as if you can realize corporate responsibility by reading an advertisement. I saw one such “image” ad in the Nov. 12th issue of Fortune.

This ad was one of those multi-page tomes you often see in magazines. It offered various caveats for the modern corporation — prescriptions for corporate responsibility. One of the statements was, “Businesses should effectively abolish child labor.” This is guaranteed to get my goat. Let’s say you refuse to buy knit golf shirts from a third-world country because the factories there use child labor. As a result, the factories close, and the children who were employed now starve in the street or turn to prostitution.

It’s an example of what I call shallow thinking. It applies to all walks of life, including investments. The correct answer to the child labor question is much more complex and difficult, and the average corporation probably cannot afford to educate parents, build schools and infrastructure, and the like. Until a third-world country can move into higher socio-economic status, through its own economic drive and desire (plus support from trading partners and perhaps some debt relief), child labor is not the worst choice. I’d rather wear a shirt made by an 11-year-old than kick him or her out on the street. I don’t want the corporation, by closing a factory in an economic disaster area, to feel good about not using child labor.

We tend to project our social mores and standards onto other countries; it’s like My Fair Lady, except the song goes, “Why can’t a country be more like us?”

Deep Thinking About Securities

In corporate securities fraud suits, plaintiffs and their attorneys collect billions of dollars in court awards, right? Who gets hurt? The shareholders, who earn less in dividends or see growth curtailed. The shareholders did nothing wrong, but they end up paying the bill. The Securities and Exchange Commission (SEC), under Chairman Christopher Cox, is working on this with the courts.

While it has nothing to do directly with private lawsuits, I can argue that at least one attorney general got to be governor by fiercely prosecuting companies for wrongdoing and collecting huge fines for his state. While the CEOs and boards of the offending companies certainly did bad things, it was the shareholders who paid the price, and they did nothing wrong.

It’s helpful to look at shallow thinking in other areas of life.

DUI Insanity

Why do we allow people to drink (or dope) over the limit and then drive our roads and highways? If we really think human lives are of value, wouldn't it be a good idea, for DUI first-offenders, to slap them with a radio bracelet and put a breathalyzer in their automobile for five years or more? The idea is this: if they can't pass the breath test, the car won't start; if they are in motion in another car without a breathalyzer, a response is triggered. The mechanics of this system would be paid for by the DUI offender, if he or she wanted to drive. If the offender tried to circumvent the system by driving another automobile, he or she would be subject to five years of house arrest (with radio bracelets) no matter what the excuse. A second offense might result in 20 years or more of house confinement. If such offenders could not find a way to support themselves during home confinement, they could work in community service, at a facility that provides room and board. Licenses would be clearly marked DUI Offender, insuring that it would be difficult to purchase or register cars without the special equipment.

The way we handle DUI cases now, despite the best efforts of Mothers Against Drunk Driving and other groups, reflects shallow thinking. The problem with the present system is that is causes needless deaths. There may be a better way than I've outlined here; if so, we should adopt it. Handling DUIs with deep thinking might be almost as good as having a futuristic, high-tech police force out of some science fiction movie. With the right approach, we can avoid bad outcomes down the road (or street, highway, or interstate, for that matter).

Managed Care Scare Stories

Has it ever occurred to you that the scare stories about nationalized health care in Canada might be coming from people who have a financial interest in preserving the status quo? I don't know that this is so, but people in Canada apparently live longer than we do in the U.S.

Our government seems to manage both Social Security and Medicare reasonably well. Medicare, however, is close to broke now and headed towards bankruptcy in 2019, according to the November 2007 AARP Bulletin. (Juxtaposing these two facts reminds me of former Washington, D.C. mayor Marion Barry's famous — or maybe infamous — remark, "When you take out the killings, Washington actually has a very low crime rate.") The combination of regular Medicare and a Medicare supplement policy seems to be approximately like managed care.

But here's what is troublesome: some individuals, between ages 50 and 55, opt out of private group health coverage because of expense increases. Later, at 65, they join Medicare in very unhealthy condition, since they have gone mostly without care for 10 or 15 years. And now, with a Part D plan that seems to work better than expected (although part of it seems crazy), seniors may actually be encouraged to use half-medications when they get to the annual "donut hole" (the portion of their expense that they have to pay before Medicare kicks in again).

And doctors who have mastered skills now seem to be starting their own mini-hospitals. Since these facilities only provide a certain type of care (spinal surgery, for example), they don't need to worry about indigent or homeless people knocking on their door. Here's an even bigger problem: where are tomorrow's doctors going to learn the ropes for three or four years of residency? Once they graduate from medical school, doctors learn the ins and outs of various illnesses and accidents at — you guessed it! — hospitals. I don't think it's realistic or prudent to have a new doc just out of med school move right into a spinal clinic, do you? His or her continued training would be only on spinal problems.

Back to Securities

The federal government seemingly is headed back into the bailout business. (See the savings and loan industry, circa 1980s.) The lines are blurring between government and business. Industry (even the banking community) cries that the markets are disorderly, and a rescue becomes more likely. Wait a minute — isn't a business risk a business risk? At any rate, watch Citicorp and the other institutions that guessed wrong about sub-prime loans (and failed to hedge their bets) line up at the federal trough if things continue to worsen.

Here's another case of shareholders taking it on the chin, unless there is a bailout. But in the lexicon of the securities business, shareowners are supposed to take it on the chin when management makes mistakes; that's when dividends are reduced, share prices fall, and executives are metaphorically decapitated and sent off with $150 million golden parachutes. Somebody needs to create a new CEO contract provision that states, "Hey, if you cost shareholders more than X dollars, you walk with no bonus; just one year's salary, your base pension, and your desk."

Broker's Bookcase: Three for the Road

Your Money & Your Brain — How the New Science of Neuroeconomics Can Help Make You Rich, by Jason Zweig (Simon & Schuster, 2007). I love thinking about how we think about numbers, and this book feeds my obsession. Readers of this column know that I am particularly suspicious of expert prognostications. So is Jason Zweig. Consider one of many nuggets he found: "Thomas Galvin of DLJ said there was only '… 200 or 300 points of downside for the NASDAQ and 20,000 on the upside.' It turned out that there were more than 2,200 on the downside …"

If you are into cogitating about risk and reward, and understanding how the mind chews on numbers (often badly), this is a great book for you. Zweig can help you get real with numbers, and you can avoid shallow thinking and head for the deep waters.

God is a Salesman — Learn from the Master, by Mark Stevens (Center Street/Hachette Book Group USA, 2007). Mark Stevens had great success with his previous book, Your Marketing Sucks, a BusinessWeek bestseller, and he offers worthwhile messages. He even talks about Wal-Mart founder Sam Walton and how it was his passion for his business model, not a quest for money or power, that led to his success. I was lucky enough to meet Walton a few years before his death. The point is that most good selling is invisible — sometimes as much to the salesperson as to the buyer.

Consider, Stevens says, that two billion people believe in God, despite the lack of real "CSI-type" evidence that He exists. That's selling, if selling is education, helping, and empowerment.

Beat the System — 11 Secrets to Building an Entrepreneurial Culture in a Bureaucratic World, by Robert W. MacDonald (Wiley, 2008). You gotta pay attention to Bob MacDonald. In the early 1980s, he wound up ITT-Hartford and built his own culture, and then he revolutionized things with LifeUSA.

MacDonald didn't sit in an ivory tower, he rolled up his sleeves and got out among agents throughout the country, sharing a powerful story. Not only were Bob's new policies different, but the field marketing system was radical. He actually seemed to like life insurance agents. I even remember getting a phone call from him in the 1980s about one of my articles. Later, I met him on one of his trips to Tulsa to promote LifeUSA.

From his work with ITT Hartford, LifeUSA, and Allianz, Bob became wealthy and ultra-successful; those two facts are not nearly so important as the how to in this book. If you have an entrepreneurial bone of two, read Beat the System and see how Bob beat the bureaucrats. You may love him or hate him, but this guy knows a thing of two about battling systems and inertia, and his book is a good read.

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