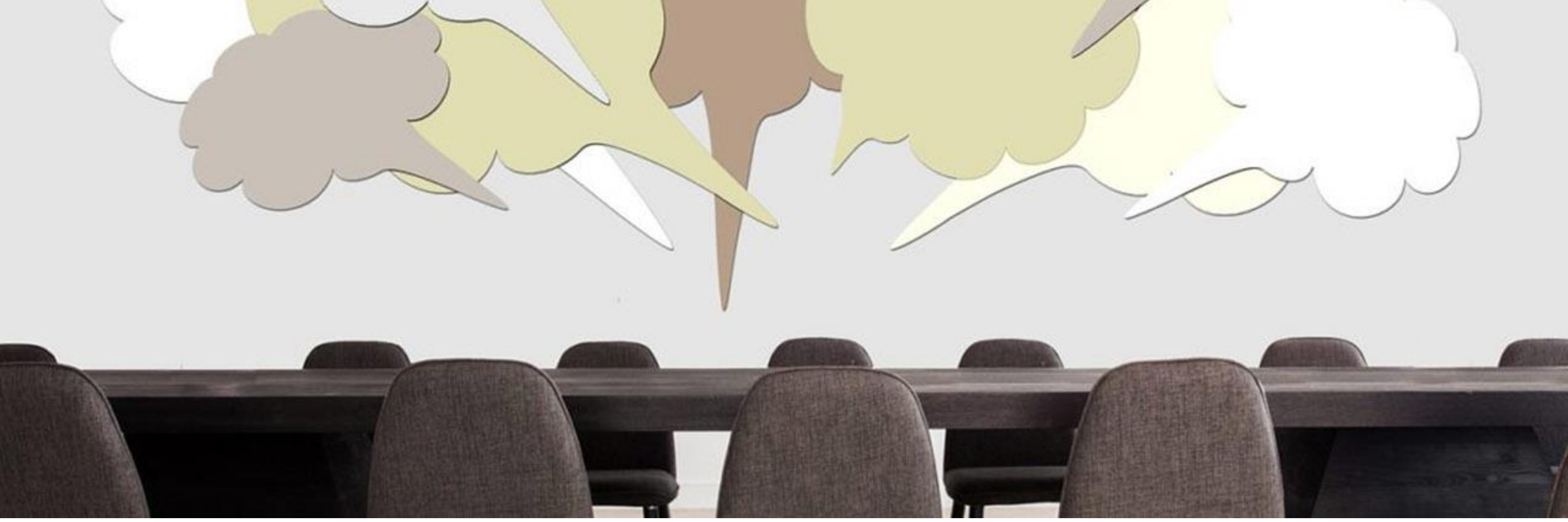

HOA Meetings vs. Shareholder Meetings

Both can be boring, but the information you might learn can be priceless

There are over 350,000 Home Owner Associations in the U.S., representing about 40 million households.

There are also about 3,600 domestic companies listed on U.S. stock exchanges and according to the Federal Reserve Board, 51.9% of families owned stocks, either directly or as part of a mutual fund.

Both HOAs and publicly-traded companies have annual meetings that you can attend. You've probably attended an HOA meeting or heard stories from neighbors. But have you ever been to a shareholder meeting of a public company? You should.

It's true that shareholder meetings can be nothing more than a required dog-and-pony show. And there are several improvements that could make these meetings better serve investors.

But it's important to attend these things because, as the real owners of the companies in our portfolios, we need to remind executives of whom they work for. Sure, you can vote your shares by proxy, but the company meeting is a reminder for management that shareholders are real people.

It's a shame these events are so scripted and dull.

The Typical Shareholder Meeting

Behind the executive panelist table, the first three rows will be mostly full of men in dark suits, who are either current or pending directors waiting for election. (Side note: it will be mostly men, because unfortunately women hold just 10.6% of all the board seats on Fortune 500 companies).

Shareholders will be left to find seats behind this cadre of fraternal directors and executives.

The rest of the room will be sparsely filled. The sandal-wearing guy sitting across the aisle from you with toenails painted pink on one foot and blue on the other will confirm your belief: most shareholder meeting attendees are typically crackpots. All the more reason that you should attend one just for the fun of watching people.

After calling the meeting to order, the chair and chief executive officer will read a scripted management presentation, looking up occasionally to make eye contact. The chair will emphasize the new energy that so-and-so, who just joined the company recently, brings to the company. Both will stress their uncontroversial focus on increasing shareholder value.

Make Sure You Vote

After verbally patting each other on the back, they will open the polls for voting. And most everyone will be surprised if you raise your hand to receive a ballot.

Because usually all the others in the room were either employees or other stockholders who already voted via the proxy process or chose not to vote. But if you take the time to attend the shareholder meeting, voting in person is a good way to stay involved.

After the voting, polls close and they announce the results. In typical fashion, all directors will be reelected and the executive compensation plan and the auditor will be approved.

Ask Questions

Then the chair will open the floor for questions. The room will be dead silent for what feels like a couple of minutes before someone raises their hand. Come prepared to ask a question if no one else in the audience participates. Try this one for fun:

“You have mentioned several times in your remarks that improving shareholder value is your foremost priority. Given that there are hundreds of thousands of company shareholders and only a handful in attendance today, does this concern you? And if so, how would you suggest this be improved?”

Likely the reply will be that investors now have other methods of receiving information, through quarterly conference calls and regular news reports. Without saying so directly, the chair will imply that the annual shareholder meeting is an unnecessary vestige of corporate antiquity. Most of the dark suits in the room will nod their heads in agreement.

But you should be unhappy with that response. The reason for an annual shareholder meeting has little to do with the effective dissemination of earnings data. Those financial updates are a foreign language to the average investor. And who could expect to learn anything new about a multinational corporation from a five-minute prepared speech?

Executive Compensation

Executive managers are supposed to serve their shareholders, but too often this role is reversed. Jack Bogle, founder of Vanguard, argues that executives and directors are “feathering their own nests” rather than looking out for the interests of their shareholders.

Despite “say on pay” measures, executive compensation is extremely high, and rises much faster than workers’ wages.

In fact, according to a report from the Economic Policy Institute, the average CEO pay is 271 times the nearly $58,000 annual average pay of the typical American worker.

From Good to Great

The main reason an annual shareholder meeting remains necessary is to build a healthy relationship between shareholders and executive managers. In great companies, managers view shareholders as business partners.

As companies stretch to move from good to great, they should consider their efforts to reach their investors. Here are a few suggestions that might make the annual shareholder meeting a bit friendlier to the average investor.

- The directors should sit in groups on both sides of the front rows. This leaves space in the middle for the CEO and chair to be able to look out into the audience and make eye contact with the shareholders who do attend the meetings. Alternatively, the panelists could sit on a raised platform allowing them to see the entire audience.
- Send personal invitations to those nonemployee shareholders who live within 30 miles of corporate headquarters. Proxy notices are cold and bureaucratic. Shareholders typically toss them in the trash. Corporations can do a better job to invite a larger audience of shareholders to these meetings.
- When management opens the floor for the question and answer section, try to do it in a way that welcomes shareholders to participate. Shareholders are sure to respond when the offer to converse is genuine.

Unfortunately, most executive teams are likely to continue offering a halfhearted attempt to engage with their shareholders. This less-is-better approach does not create the type of synergy necessary to support great companies.

These two groups should be able to look each other in the eye and acknowledge the important role that each party plays.