

## THE INCREASING THREAT OF STAKEHOLDER CAPITALISM

### Have you noticed the companies getting more involved in politics lately?

We are seeing America lose its free market focus. The American dream is at risk like never before. Socialism is being taught as the new utopia in universities across America. We are being told about our negative history, but seldom the positive change America created.

At the same time, power is shifting to crony capitalism with more top-down government-controlled regulations and mandates. Stakeholder capitalism is the new “buzzword” and it sounds great until you understand what it really is.

Dr. Erik Davidson, former Wells Fargo Chief Investment Officer of the private bank, joins the Economic War Room® to discuss stakeholder capitalism and the threat to America’s liberty and free market.



### **Your Mission:** To better understand the threats of stakeholder capitalism, and the opportunities of free markets. Beware of:

- » **Top-Down Government Controls**
- » **Crony Capitalism**

“One of the students will talk about reading this thing on stakeholder capitalism and all of a sudden everyone starts jumping on that, like, what a great idea that is.” -Dr. Erik Davidson

**Ep. 4-133 (OSINT) Open-Sourced Intelligence Briefing. This includes quotes and summaries of conversations in the Economic War Room with Kevin Freeman and Dr. Erik Davidson. Dr. Davidson recently completed his Doctorate in Behavioral Finance and is currently the chief economic adviser for Inspire Investing. Previously he was Chief Investment Officer for Wells Fargo’s private bank.**



1. College student philosophy today as it relates to capitalism.

**At first, Stakeholder Capitalism sounds great:**

"When we when we start off a semester in a finance class, we actually get very philosophical very quickly and we talk about 'what's the goal of the firm?'

People obviously talk about profits, but then soon the students will start talking about the importance of employees and customers and community environment and then inevitably we'll start discussing, 'I read this thing about stakeholder capitalism,' and all of a sudden everyone starts jumping on that, like, what a great idea that is."

**While it sounds good, it does not work.**

"At the end of the day, what's really important, what the goal of the firm should be is to maximize shareholder value. Students will push back against that and don't hear what I'm not saying.

- » It's not that employees don't matter.
- » It's not that community doesn't matter.
- » It's not that the environment doesn't matter.

If in sum total you don't take care of those, you will not maximize shareholder value. But if you start to focus on those other things first, you'll become distracted.

**It is still the score that matters!"**

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"It's sort of like with March Madness and basketball and Baylor. We're very excited about that. Is rebounding and absolutely defense, most certainly, passing, shooting, dribbling. All of those are really important. But if you end up focusing on any one of those and you can win the rebounding game, but fail to score, you actually lose the game.

Now imagine a coach who says after the game, 'We did a great job today. We out rebounded the other team and we got more steals. We had more assists.' Yeah! But the other team scored more points than you did. Right. You know, the objective in sports is to win the game. The component parts of that are all these other things." -Dr. Erik Davidson

## 2. The problem of Stakeholder Capitalism

Every stakeholder needs to be cared for. As Christians, our duty is to make sure that we're not leaving segments of this nation behind.

But things can go off the rails.

- » We've seen **this massive wealth gap** that's created.
- » We have **short-term thinking**, for example, at the cost of long-term outcomes.
- » We've been **harming the environment**.

Stakeholder capitalism wants to focus on these issues primarily. But what does stakeholder capitalism really mean? Who are the stakeholders?

### Stakeholders defined

Stakeholders, as we've mentioned, are these other entities. We can't minimize their importance, but if you put any of them over the shareholder, you head into problems.

- » If you put the **customers over shareholders**, you won't have a business.
- » If you put **the employees over shareholders**, you won't have a business.
- » If you **pursue the community or the environment over shareholders**, other problems are created.

**The good news is that the profit motive, in a well-functioning and fair system, forces the business to take into account all the stakeholders in order to serve the shareholders.**

- » Profit is kind of how you measure success.
  - If you're not making a profit the business will not survive.
  - You cannot get to profit without serving employees, customers, and the community at large.
  - And if that's not working, it's not the failure of shareholder capitalism, it is another aspect of the system that needs to be repaired.

Instead, we should look at these things:

- » Maybe there is too much government being cozy with big business creating crony capitalism?
- » Maybe there are too many regulations preventing small business from being competitive?
- » Maybe there are institutional problems that should be addressed?
- » Maybe it's a lack of public morality and following the Golden Rule?

**The profit motivation in a fair and functional system works very well in both keeping score and keeping all constituencies on a good track.**

"Racism, for example, is anti-economic. A racist grocer in a fair system will do measurably worse than one who serves all customers and hires the best employees. Likewise, a company that is exposed for harming the environment will lose customers and go out of business."

**The problem is when these companies use their power and influence to reduce or eliminate competition or stifle free speech.**

- » Unfortunately, we are seeing big business throw in with the government, claiming to be "woke," at the expense of the shareholder and to the detriment of liberty.

### **3. A comparison of Stakeholder Capitalism to Socialism.**

There are certain political elements that have a very broad view of stakeholder capitalism. And if you take a really broad view, it is (or leads to) socialism. It's critical that we have a level playing field to combat this good-sounding but eventually malicious approach.

"We have to be relentless of getting towards a level playing field. And we don't mean there aren't systemic issues that we continue to need to improve and address. Just like we need fair officials in sporting events, we need to continue to make the officiating more and more fair in the sense of a regulators in government. But you can't use the officials to affect the outcome of the game. That's not the goal. The goal is to make it a level playing field. With fair referees, let the beauty of the free markets take over from there." -Erik Davidson

PAGE 4

**Lessons in History:** Kevin Freeman reflects on Rod Martin's comparison of the Russian Revolution and Mussolini's National Socialism.

**With Stakeholder Capitalism are we slipping into the illusion of private ownership?**

### **The Russian Revolution**

Look at Lenin's approach in the Russian Revolution. Lenin's approach was to go in and just kill all these people that stood in their way.

### **Contrast that to Mussolini's approach in Italy,**

- » Mussolini, when he took over in Italy, had a different approach. He said: "Hey, look, you own the business. If you like your business, you can keep your business. You can continue to feel like you have a stake in all this."
- » He gave the illusion of private ownership, but then he said the purpose of the corporation is to serve the state.
- » And they ended up with oligarchs that were controlling everything.

**In Mussolini's mind, it was a better path to socialism because there was not all this mass bloodshed.**

Unfortunately, we ended up in World War II and we ultimately had the bloodshed anyway.

- » **But the idea was they had the illusion that they had economic freedom. Today, it seems like we're seeing a lot of that taking place.**
- » A push to stakeholder capitalism is the adoption of the State removing all our economic liberty.

## **4. Is America headed for Socialism or Crony Capitalism?**

Has the state been captured by big business instead of the state controlling big business? It now seems like big business and the government are becoming one. Facebook and Twitter tell you what you are allowed to speak and share. Major League Baseball, Coke, and Delta Airlines tell the people of Georgia how they are allowed to run elections.

“This is a challenge, as we need to be relentless to level the playing field. The risk of a drifting off into socialism is a strong one, but also the risk of drifting off into crony capitalism as well. And neither is right. And that’s why to be relentless in keeping and doing everything we can to remove the systemic issues that create this unfairness in favor crony capitalists or government. This is something that we need to be diligent about.” – Erik Davidson

## 5. The “woke” version of Stakeholder Capitalism

**Practical and the political implications. A closer look at a couple of Biden’s Policies and Stakeholder Capitalism:**

- A. **\$15 minimum wage** – That’s a stakeholder friendly proposal. It sounds pro employee.

**The reality:** Look at the Cost-of-living difference around the country.

The cost of living is so much different. And to impose minimum wages that maybe would work in Manhattan on other parts of the country just doesn’t make sense.



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“My area of specialty is behavioral finance. And one of the biggest decision-making area errors that we make from a financial perspective or in many perspectives is we count the cost, but we don’t count the opportunity costs.”

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When we talk about the minimum wage, what are the opportunity costs? It sounds wonderful. And we want everybody to make a lot of money.

### **But who gets laid off?**

I’ve had minimum wage jobs. You’ve had minimum wage jobs. I never thought with my minimum wage job working at a gas station back in the day that is what I want to do forever. But it’s a tremendous honor for me to get into the workforce. Right. With no skills. It’s a tremendous way to get started.

- » Essentially, the minimum wage makes it illegal for an employer to pay an employee below a certain amount.
- » We're just literally throwing away lots of potential jobs that may not be worth the minimum.
- » It can't be uniform. It makes no sense to pay the same in New York or Tokyo or Waco, Texas.
- » How do you know what's the right amount if you don't let the market set it? Maybe we should have one hundred dollars an hour minimum wage or a thousand dollars an hour. We could all be rich!
- » Approximately 2% of the workforce is at minimum wage currently. But if you set it high enough, a large percentage will be at the minimum with many more forced out of the labor pool.
- » There will also be lots of currently profitable businesses forced out of business.
- » Our nation has functioned with a minimum wage for decades with a slow rise in the minimum. But an abrupt doubling of the minimum could set off a mass chain reaction. It sounds good to some in theory but may produce painful side effects.

"My concern is the opportunity costs for people that maybe will **lose jobs** or even more importantly, people that will **never get jobs**. You know, and oftentimes these are the unskilled, or the young, looking to get into the workforce. Then you have guaranteed government payments which require higher taxes and a path to obvious socialism."

**B. Mandated prices. Lower the cost of everything or make things free. A brief look at supply and demand.**

**We Can Make More Things Free!**

**Let Them Eat Steak** - Let's say we think steak should be free. That would be great, And then you'd spend your entire day driving around trying to find that four-dollar steak or that free steak.

**It's about the law of supply and demand:** It would not be available, there's a demand side. The demand side wants lower prices. But then there's also the supply side. And we've seen what that looks like. The point is you have to have supply and demand coming together otherwise it will not work.

**As it relates to mandates. A look at free markets and the housing crisis in underserved communities.**

**Everyone Should Own A Home.**

We've got a couple of books here, the *Financial Crisis Inquiry Report* and *Hidden in Plain Sight* by Peter Wallison. You know, the setup to 2008 included a huge "stakeholder capitalism" push to make sure everyone could own a home regardless of their economic reality.

**It is a basic right, therefore, everyone should have a home.**

- » The big banks were reacting to some laws that had been put in place based on the notion that everyone ought to be able to own a home.
- » There was the Community Reinvestment Act and other laws said that home ownership is for our social good.
- » That's what we need to strive for, it becomes like the basketball rebounding example earlier in this briefing.
- » It's absolutely essential, but **when you mandate it and you force a company to follow that as their primary objective, you create a new set of problems.**

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"You want the free market and the free market is not perfect. And there are systemic issues that need to be addressed. As you know, my family is a multi-racial family. And there's issues out there. There have been historically. But the solution is to continue to work diligently to make a level playing field. But if you put in place these non-economic forces, that can be problematic.

You know, we talk a lot about finance. Wouldn't it be nice to have a zero percent unemployment rate? Sure it would, but that just doesn't make sense. So, there's this idea of a natural unemployment rate of maybe three or four or five percent.

Likewise, would it be wonderful if everybody owned a home? Most certainly it would. But there's sort of a natural maximum homeownership rate, because not everyone wants to own a home and people are moving. In many cases, renting actually makes more sense." -Eric Davidson



“What we saw with **the housing crisis, is that we probably stretched it too far, we had too much home ownership in our country because of all these mandates and maybe uneconomic incentives.**”

**6. NASDAQ requires gender and racial diversity on Boards? What are they really saying today?**

“I am a citizen of the Cherokee Nation, so I qualify as a minority board member. I don’t know why that makes me more qualified to be a board member. Is there a point at which this becomes ludicrous that you mandate that you have a board that looks a certain way?” –Kevin Freeman

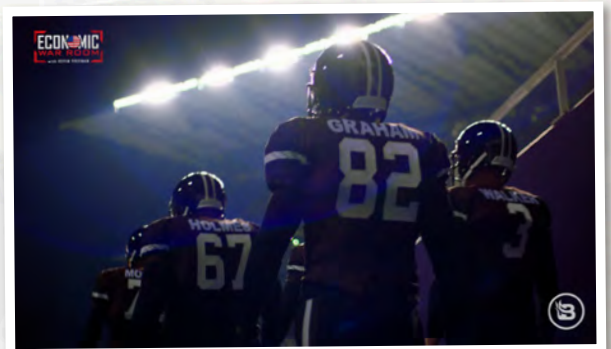
**Diversity is good! Erik shares about diversity in the world of finance:**

“We talk about diversity a lot. We call it diversification. And it really is sort of the secret sauce of investing. When you have diversification, you have different investments. You have stocks and bonds and commodities. You put these together and it’s almost alchemy that you can have a better portfolio outcome, better returns, lower risk by bringing together these disparate investments. **The same applies not only in financial capital, but also in human capital by bringing them together.**”

**But diversity implemented in the wrong way can have the wrong effect.**

**A look at the game of football if diversity was mandated in the same way.**

“Diversity, It’s powerful. It’s wonderful. I’m a huge proponent of it. I just have problems with the mandate of doing it a certain way. You know, you’re in a hotel lobby and a football team walks in. You immediately can look at them and say, look, you know, that guy’s probably a lineman. That guy’s maybe a receiver. Oh, that guy over there, he’s definitely the kicker. Right? You know, they’re not all going to look the same. And that’s the power of bringing that together. And that football team is going to play much better and win more games against a team full of all linemen or God forbid, all kickers. Right?”



But what if what if the requirement was if you want to play here, all linemen on your team have to be five-foot-one inches tall and weigh one hundred and thirty pounds because we want diversity of weight in our play. I mean, there comes a point at which the mandate versus the market, the market should determine it. So maybe the better approach is to educate people that having a broadly diverse viewpoints makes for a better board. And the investors look for companies that have a diverse board rather than NASDAQ saying you can't be listed if you don't have this particular board complexion." –Erik Davidson

## 7. The Danger Zones of Stakeholder Capitalism – Government controls everything or Crony Capitalism is in charge.

- A. **The Government Controls Everything.** If the government starts mandating things, you know, one direction the government could mandate becomes the Harrison Bergeron story.

*Harrison Bergeron* – A 1961 Science fiction book written by Kurt Vonnegut, with the following plot:

"In the year 2081, the 211th, 212th, and 213th amendments to the [Constitution](#) dictate that all Americans are fully equal and not allowed to be smarter, better-looking, or more physically able than anyone else. The Handicapper General's agents enforce the equality laws, forcing citizens to wear "[handicaps](#)," masks for those who are too beautiful, loud radios that disrupt thoughts inside the ears of intelligent people, and heavy weights for the strong or athletic." –Wikipedia

**A government that controls everything will ultimately destroy the incentive to compete.**

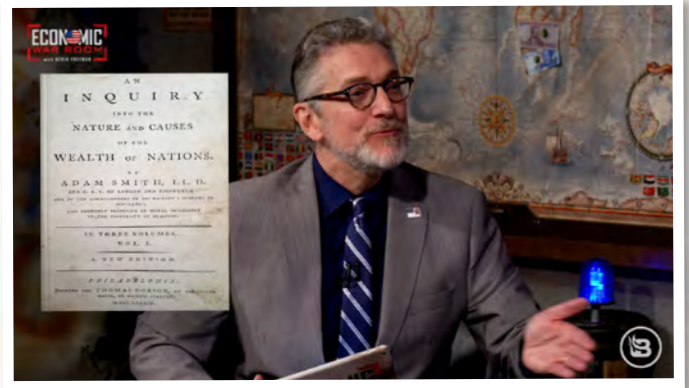
- B. **Crony Capitalism** – Crony Capitalism is the other danger zone. Government is not involved and the Corporations take over the Government . Look at Facebook, Apple, Amazon, and Google and ask, "Who is controlling whom?"

## 8. Finding the answer – Moral Democratic Capitalism

"Getting back to the sports metaphor, the extent that we can create an environment where things are fair, where it's a level playing field and let the magic of the free markets take over becomes incredible. And then to add to that, I do think that there's

this importance of a moral and ethical underpinning to all of that. I think really, you know, in this life is probably about as close to a perfect world as we can get.” –Erik Davidson

We talk about moral democratic capitalism in the Economic War Room®. Capitalism may be a wrong word because it offends some people. We know about Adam Smith’s *Wealth of Nations* as the foundation for Capitalism. Before he wrote *Wealth of Nations*, he wrote *The Theory of Moral Sentiments*.



Adam Smith’s *Theory of Moral Sentiments* –

Broadly speaking, Smith followed the views of his mentor, [Francis Hutcheson](#) of the [University of Glasgow](#), who divided moral philosophy into four parts: Ethics and Virtue; Private rights and Natural liberty; Familial rights (called Economics); and State and Individual rights (called Politics). –Wikipedia.

**“We’ve got to be moral. And if you want to destroy the environment to make a short-term profit, as an economist, I think of it in time horizons. So there’s an eternal time horizon. I believe there’s a God to whom I’m going to have to answer. And there’s a price to be paid if I’m really harming other people. So morals are very important in addition to being Democratic as in providing equal opportunity.”** –Kevin Freeman

**9. A level playing field is critical because everybody should have fair and equal opportunity.**

Our country is a melting pot. And we’ve gotten down on ourselves a lot for being too racist or too this or too that. But when you visit other countries, you realize that we are human and all of us have a lot to work on. In America, we actually have plugged in some really bad history, no question about it. We can’t hide that. But we have some really good history too! And America is ahead of the pack in many areas.

“We have vibrant economy and that’s the impact of immigrants. You know, look at Tesla, look at Google, look at eBay started by immigrants. So it’s powerful! People come here for a reason.” –Erik Davidson

**10. Capitalism may be not be the right word to use today due to perceptions, so we will substitute the term “free market.”**



**A look at what the Free Market does. Erik Davidson provides a simple definition.**

“I think a free market is the beauty of bringing together all these views and all these opinions. It’s very similar to democracy. But instead of one person, one vote, it’s one dollar, one vote. And it really is the huge clearinghouse of information that gets captured in this thing that we call the price. And in that price is where supply meets demand. Where a willing buyer and a willing seller meet. And that’s the beauty. And it really helps to determine where resources should be going in our economy. It helps to meet consumers who have demand and it helps to meet the needs of businesses who have the supply. And it’s Magical.”

That’s a stakeholder. Now we’ve got a free market setting the price. How does that serve employees best?

**11. Free Market serves employees – Top-down controls**

The beauty of a free market for employees is that, as the saying goes, **“Human capital goes where it’s welcome and stays and works where it is well treated.”**

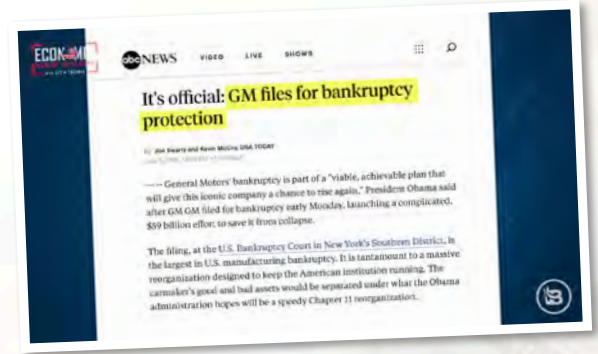
- » You can go out into the marketplace and you can bring your skill sets and you can be paid for that handsomely.
- » If you invest in yourself and train yourself and have some certain skills, then you’ll get paid really nicely.



## CASE STUDY- General Motors – What happens when the free markets are removed?

A look at Corporate America where the free market was removed.

- » In Detroit, at one point, labor had so agitated the boardroom that they said, "You know what, keep those people, let them stay employed, put them under contract, but we don't need their work anymore."
- » GM literally paid employees to sit around.
- » The payroll at General Motors was outrageous. And what did that lead to? It led to the bankruptcy of the company and then layoffs.
- » The results for employees and the company were highly problematic. Auto prices had to be higher than they should have been because a stakeholder capitalism approach forced GM to maintain unproductive labor and pay all the salary and benefits.



"The idea is the free market sets it and there's some government to prevent abuse. You don't want any exploitation and slave labor. You have to prevent that. But in a fair system, the free market should set the price of labor." –Kevin Freeman

## 12. How can the free market benefit underserved communities?

Let's say you've got people in communities that have historically not had the same opportunities, they don't get the same education, they may not be able to engage. How can the free market help them?

- » The free market can help those communities by allowing people to get jobs and then to start businesses in those communities. They are not helped by having the crony capitalism that prevents entrepreneurship.
- » To goal is to create wealth, to own homes, these sort of things. So that's extremely powerful. And with that goes all the benefits for the families, for the communities, for the individuals.
- » Of course, we have to maintain a level playing field and also allow people the free market mobility to move to a different community.

PAGE 13

**“I’m worried that we’re going to create 10 problems by solving one. Focusing on Erik’s sports analogy from earlier. Oh, we’re going to be the number one rebounding team in the country and never practicing shooting, never scoring baskets at all, or never playing defense. That team loses every time. Now a team might want to specialize in a certain skill area but their goal is to always score the most points to win. I’m worried that we’ll create 10 new problems by solving one and focusing on a top-down government mandated approach. Has it worked in history? No. What about Soviet Union? Maoist China? No. Venezuela? No. Modern China is prosperous only by adapting some free-market principles (and a good bit of IP theft) but now the free market aspect is at risk due to heavy-handed Beijing policies.” –Kevin Freeman**

**Watching out for top-down control is critical!**

### **13. Crony Capitalism – How to manage with it.**

- » We have to be on the lookout for monopolistic behavior.
- » We have to think about the interactions between businesses and government.

**“You know, where you have these sort of, ‘I scratch your back, you scratch mine’ deals, you lack transparency and accountability.**

Having transparency and accountability gets back to that idea of just making sure that the referees in the game, in other words the government, are calling it fair.” –Erik Davidson

## **Why Should You Care?**

- » Truth is not being told, and many Americans are being deceived by what sounds good but is really a lie.
- » Stakeholder capitalism could ultimately be the slippery slope to socialism or worse.
- » Free markets are under attack and the alternatives are proven failures.
- » Crony Capitalism in America is a real threat to your liberty.
- » Top-down control of government is a real threat.
- » The beauty and value of diversity in America is being manipulated for harm.
- » Now more than ever, owning companies that align with your values must have a place in your portfolio. Near the top of those values should be moral, democratic capitalism because it works.



Does this seem familiar with what we are being fed about Stakeholder Capitalism?

“Mussolini gave the illusion of private ownership, but then he said the purpose of the corporation is to serve the state.”

In the Economic War Room®, we encourage Americans to be the “small ships that make the difference.” You cannot solely rely on the government or the president to solve your problems. You have to make a difference. It is up to you to help take our country back and create a voice for economic liberty.

## Action Steps:

Share this battle plan with your friends and your financial advisors.

### What Investors can do to support their values:

1. Help others understand what Stakeholder Capitalism really is and align your investments with companies that stand for Liberty.
2. Vote in elections for those that understand the importance of free markets.
3. Watch for crony capitalism. Engage with companies that go against your values through proxy services, emails, and phone calls. Major League Baseball, Coke, Delta Airlines, American Airlines and others have decided to tell Georgia's government how things should be done as it relates to Election Integrity. This despite in some cases not even reading the bill. Rather than focus on the fundamentals of their business they have decided to be your voice? Do you agree? If not call or email them.

**MLB: (866) 800-1275 or email [customerservice@website.mlb.com](mailto:customerservice@website.mlb.com)**

**Coke: (800) 438-2653**

**Delta: (404) 715-2170 or email - [investorrelations@delta.com](mailto:investorrelations@delta.com)**

**American Airlines: (877) 390-3077 or email: [info@amstock.com](mailto:info@amstock.com)**

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# ECONOMIC BATTLE PLAN™

THREAT OF STAKEHOLDER CAPITALISM 4.133

CLEARED FOR RELEASE 04/08/2021 (ECONOMIC BATTLE PLAN™ POINTS: 95)

5. Call your financial advisor and make the point that you want them to help you weaponize your money to save America. Encourage them to attend the NSIC advisor training.
6. HELP ALL AMERICANS WAKE UP to the weaponization of money and be part of saving America. **Send this battle plan to friends and your financial advisor and ask them to sign up for our weekly Economic Battle Plan™ updates at [www.economicwarroom.com](http://www.economicwarroom.com). Be sure to catch the data and footnotes below for more documentation. We want you to have access to key information to make intelligent decisions.**

**We need more Economic Patriots on the team!** Consider what you can do now to help strengthen America or even help someone in need. Keep in touch with your congressional representatives. Choose from the list or set your own goals:

- ✓ Get others to sign up on our website (<https://www.economicwarroom.com>) and review our free weekly [Economic Battle Plans™](#). Each of these will address critical solutions to the threats highlighted in this briefing.
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- ✓ You are welcome to share this battle plan and our short video segments with friends on [FB](#) or [YouTube](#). We set up the Economic War Room® to be your resource for information, preparation, and mobilization.
- ✓ Do this now! Have a financial action plan based on multiple geopolitical scenarios developed now. Advanced preparation is key. Trying to figure what to do when an economic event happens is usually too late.

PAGE 16





- ✓ Talk with your financial advisor as it relates to your savings/investments. Ensure your advisor understand the potential impact economic/geo-political scenarios could have on your portfolio. LOOK FOR ECONOMIC WAR ROOM'S ADVISOR AND INVESTOR ONLINE TRAINING COURSES COMING SOON.

### Shareable Quote:

**“If in sum total you don’t take care of the stakeholders, you will not maximize shareholder value. But if you start to focus on those other things first, you’ll become distracted. It is still the score that matters.”**

-Dr. Erik Davidson

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(List of resources and external links for more information)

### Quick Access Links

[About Dr. Erik Davidson](#)

[The Failures of Stakeholder Capitalism without Free Market Approach](#)

[Real Capitalism is Built on Free Markets](#)

[The Emergence of “Woke” Corporations](#)

[CASE STUDY: Did a Flawed Stakeholder Approach Helped Send GM to Bankruptcy?](#)

[CASE STUDY: Was Stakeholder Capitalism a Component of the 2008 Economic Crisis? Weighing the Different Views](#)

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### [ ] - Must Read/Watch

#### Episodes and Economic Battle Plans™ from Prior Shows with Application to this Topic:

[ ] 03/25/21, EP131, Death of Shareholder Capitalism, Justin Danhof, [Download Economic Battle Plan™](#)

[ ] 03/11/21, EP129, Woke Capital, Stephen Soukup, [Download Economic Battle Plan™](#)

[ ] 10/08/20, EP108, Investor Values Poll, John McLaughlin, [Download Economic Battle Plan™](#)

[ ] 08/27/20, EP102, The Proxy Voting Weapon, Justin Danhof, [Download Economic Battle Plan™](#)

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[ ] 03/26/20, EP80 The \$40 Trillion Monster - ESG, [Download Economic Battle Plan™](#)

[ ] 02/27/20, EP75 Free Markets are Good for All, [Download Economic Battle Plan™](#)



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