

## Background

### *The Problem:*

Americans give 1.67% of the nation's GDP to charity each year making us the most generous country in the world. Coming in second is the United Kingdom which gives 0.73% of their GDP to charity a year. Other notable countries are Canada at 0.72%, South Africa at 0.64%, Germany at 0.22%, and France at 0.14%. Even though Americans are more than twice as generous as the next country, there are a lot of people who believe that the wealthiest nation in the world should give more than 1.67% to charity. One of the problems is that the process of giving has not really changed in over sixty years (payroll deduction charitable donations started in 1940). There have been some nice additions for the very wealthy like the Donor Advised Funds, but for the masses giving to charity still revolves around sitting down and writing a check.

What has happened over the last sixty years is that we have gained a better understanding of the psychology behind giving and not giving. Studies show that it is extremely difficult to get people to sit down and write a discretionary check to a charity. Even when an individual is an advocate for the charity involved, most people find it very hard to sacrifice today for the benefit of the charity in the future. As such, most people never give as much as they intend.

The good news is that the studies on the psychology of decision making also tell us that there are four major ways to make giving to charities more appealing to people.

1. Replace the Check: The first way is to replace the act of check writing. The best example of this is the automatic payroll deduction for the United Way.
2. Focus on the Future: Studies tell us that restrictions on future events are far easier for people to accept than a limitation today. This is one of the reasons that getting someone to make a pledge is much easier than getting them to write a check.
3. Focus on the Gain: People are very sensitive to losses in well being. As such, people find it much easier to forgo a gain than take a loss. Charitable raffles play on this sense of focusing a potential gain, making it easier for the contributor to overlook the upfront loss.
4. Focus on the Nominal and not the Real Dollars: People tend to interpret gains and losses in nominal rather than real dollars. So, for example, a pay increase that is less than the rate of inflation may still be considered a gain rather than a loss. Matching contributions play on this feeling, because people get the psychological benefit of giving \$200 even when their pre-match contribution was only \$100.

While we see charities structuring their different fund raising efforts to appeal to one or two parts of the decision making process, we have not seen anyone incorporate all of them. The closest strategy that I am aware of would be the SMarT 401K Plan. These plans use automatic payroll deductions to prevent the need to write checks. The amount saved is based on your future pay raises, so that over time a larger portion of each pay raise goes into savings and less to your pay stub. This plan replaces the check and encompasses people's desire to push the commitment into the future, base the commitment only on a gain (the pay raise), and focus on the nominal dollars of the pay raise (not the real dollars of the pay raise). The SMarT Plan is a great example of creating a structure that achieves its goal of saving by incorporating the psychology of decision making to help people make the right decision. How do we do the same thing for charitable giving?

***The Solution:***

The solution is the Davlin Philanthropic Fund, an SEC-registered, open-ended, no load mutual fund where a significant percentage of the advisory fee goes to charity. The structure plays to the psychology of giving:

1. It replaces the check by taking it out of the advisory fee.
2. It focuses on the future because you do not give any of your principal to charity.
3. It focuses on the gain, because the advisory fee typically comes out of the gain.
4. Lastly, it focuses on the nominal dollars. Like all mutual funds, performance is calculated after fees are deducted, so the investor never really focuses on the size of the contribution.

I call this "*the power of structural giving*".

We have all read about the power of structural savings plans, like a 401K or a traditional mortgage. These are financial vehicles that appeal to the psychology of decision making to overcome the hurdles of saving. It is now time to shift that paradigm to focus on creating "*structural giving plans*" like the Davlin Philanthropic Fund, which create "sustainable giving."

***The Philanthropist:***

The term "Philanthropist" conjures up the image of an old man or woman who has both the time and the money to dedicate his/her life to charities. To some extent that image makes sense, because traditionally it took a great deal of time to find good charities and review them. As a result, only the ideal wealthy could become philanthropists. That has all changed. Today, we have the Internet, so all the information you want can be had by going to the charities websites. If you need further help there are websites like *The Catalogue for Philanthropy* that indexes charities for you or the *Charity Navigator* that rates charities. With all these new tools, time is no longer required to be a philanthropist.

However, even with these new tools, our perception of a philanthropist has not yet been modified. The Davlin Philanthropic Fund hopes to change all of that. The term

philanthropy comes from the Greek words that mean “love of humanity”. With the proper tools, everyone can express their love for humanity. By incorporating the power of structural giving, everyone can become a “Philanthropist” the day that they get their first job. That is to say that people can talk about making 40, 50, and 60 year commitments to their charities. We want the title of “Philanthropists” to be redefined and reserved for only those who make a lifelong commitment starting from their first job and ending with their death. We want to take the responsibility of loving humanity from the few, the old, and the rich to the many and the masses.

The Davlin Philanthropic Fund also hopes to fundamentally change the size of the philanthropic industry in America. Once the Davlin Philanthropic Fund achieves the economies of scale, we hope to distribute roughly 1.00% of net assets under management to charities every year. The average American gives roughly 1.6% of their taxable income away each year. Since assets are a much larger base than taxable income, if we can get Americans to give away an additional 1.0% of assets a year we are talking about a magnitude change in the size of the charitable industry. The Davlin Philanthropic Fund seeks to lead this paradigm shift.