LOADED ISSUE

Weapons and munitions manufacturers have not yet been punished by the market for their complicity in the recent mass shootings

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In the era of managed money, clients are calling less and less frequently when they see performance go up and down on news. However, they are still calling based on what they see in the news. It's just that it's not the business report at the bottom of the hour that's making them call. It's the headlines at the top of the hour.

The modern age of mass shootings began 20 years ago at Westside Middle School in Jonesboro, Arkansas. Next came Columbine, Virginia Tech, a movie theater in Aurora, Colorado, Sandy Hook, the Emanuel AME church in Charleston, South Carolina, the Pulse nightclub in Orlando, the Las Vegas Harvest Music Festival and most recently, Marjory Stoneman Douglas High School.

What these acts – and plenty of others like them – have in common is that they were committed in large part with high-capacity guns designed for military or law enforcement use, almost always obtained legally. Of course, just because something is legal and constitutional does not mean it is acceptable to the consumer and the investing public. So why have the weapons and munitions manufacturers involved – directly or indirectly, voluntarily or involuntarily – not been punished by the market?

FEELING THE BACKLASH

In other scenarios, corporations have been brought to their knees simply by the potential for a mass casualty event. Last year, Takata Corporation filed for bankruptcy after a scandal erupted over its faulty airbags. Historically, Chevrolet suffered for the Corvair, famously branded 'Unsafe at any speed.'

Another excellent case study is the Chicago Tylenol poisonings of 1982, when seven people died after ingesting capsules manufactured by Johnson & Johnson that had been laced with cyanide. The tampering was not the fault of the company, unless we are to hold them responsible for lacking the 20/20 foresight to anticipate someone murderously violating the integrity of the product. In response, Johnson & Johnson recalled 31 million bottles of Extra Strength Tylenol. The stock was hit, but it gradually recovered over the next two months. The market appreciated the firm's willingness to accept a form of responsibility and the quick and decisive action it took to manage a potential risk to the public and the company.

Right now, Tesla, Uber and Waymo, awash in investment capital, are being judged harshly for a few injuries and fatalities from self-driving cars. These are accidents – unacceptable, of course, but accidents all the same. There are now indications that the injury rate per mile driven for self-driving cars is already trending demonstrably lower than when a human is behind the wheel. Nevertheless, testing on public roads has been suspended to give further opportunity for the firms involved to address the errors and risks. This is the sort of corporate action that is conspicuously absent when it comes to weapons.

Companies that have deleterious effects on people – their workers, communities, customers, or society in general – are increasingly being tasked to do better by those with the money. This is what lies at the heart of ESG investing.

Meanwhile, it is worth remembering that high-capacity weapons are actually designed to destroy what they hit. That is not an unfortunate byproduct of the product's design or an off-brand application. How is it that a drug company can be punished by the market for not making its capsules sufficiently tamper-proof, or that the firms behind self-driving cars feel enough pressure to halt all testing on public roads, while weapons and munitions manufacturers take no responsibility for customers using their products precisely as they were designed, resulting in mass casualties?

FACING THE MARKET

To a certain extent, the market has already had something to say on the subject. Business is never better and stock prices are never higher than when it seems likely that Congress or the White House may take steps to limit access to assault weapons.

There is not much of a long-term fundamental thesis there, though. If that scenario were ever to play out with a ban on assault weapons, the market opportunity would be abruptly crushed. On the flip side, the legislative environment right now is benign for weapons and ammunition makers.

Remington, a maker of assault weapons, filed for Chapter 11 bankruptcy in the past few weeks. When conditions are most favorable, the market likes the fundamental prospects the least. A number of financial institutions have already divested from companies that manufacture weapons that are seen as human rights violations – chemical and biological weapons, cluster munitions, anti-personnel mines and uranium-tipped shells – but not necessarily those that are relevant to the recent shootings.

Of course, weaponry for civil and national defense can be for a greater good. There is a role for companies making and selling firearms and ammunition to law enforcement and the military. If the abuse of similar weapons results in human rights violations, killing children at their school desks for instance, a strong case can be made for calling on those companies to limit or discontinue those products or face the same consequences that any other company in the market would. ■