



Why We Don't Invest in Vice Industries

A Managed Risk Perspective on Long-Term Investing

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Every investment decision communicates something—not only about where we believe opportunity exists, but also about the risks we're willing to accept on behalf of our clients.

Over the years, I've occasionally been asked why Summit Global Investments generally avoids investing in companies whose primary business is tobacco, gambling, or alcohol. These industries have long been grouped together under multiple labels including "sin stocks", "socially-sensitive industries" or "regulated consumer industries".

For some, the answer might seem obvious. My personal faith certainly influences my own worldview and the principles by which I live. However, Summit Global serves investors from many different backgrounds, beliefs, and perspectives. Our investment philosophy is not about asking clients to adopt my personal convictions, nor is it about making moral judgments about others.

Instead, our philosophy begins with something much more universal: **managing risk**.

Looking Beyond Returns

Historically, vice industries have developed a reputation for producing attractive dividends and relatively stable cash flows. Many investors have viewed them as defensive holdings during uncertain markets.

But our responsibility isn't simply to identify companies that have performed well in the past. It's to evaluate the full range of risks that could influence future outcomes.

These industries often face a unique combination of long-term headwinds:

- Increasing government regulation
- Higher excise taxes and legislative scrutiny
- Ongoing litigation exposure
- Changing consumer preferences
- Growing environmental, social, and governance (ESG) expectations
- Reputational risks that can influence capital flows

Each of these factors introduces uncertainty that may not always be reflected in today's stock price.



"We don't simply evaluate whether a company is profitable. We evaluate how durable those profits are likely to be. Long-term investing is about owning businesses built to endure, not just businesses built to perform."



Risk Comes in Many Forms

When investors think about risk, they often think about market volatility. We think more broadly.

At Summit Global, risk also includes the possibility that a business model becomes less durable over time because of political, regulatory, demographic, or societal change.

Tobacco consumption has steadily declined in many developed countries. Traditional casino operators continue adapting to an increasingly complex regulatory landscape. Alcohol companies face changing consumer habits as younger generations moderate consumption and wellness trends reshape demand.

None of these industries are disappearing tomorrow. Many remain profitable businesses. But our responsibility is to evaluate whether those risks align with the type of long-term portfolio construction we seek for our clients.

What We Look For Instead

Our research process begins with a simple question: **What makes a business capable of creating value for decades—not just quarters?**

We prefer businesses with durable competitive advantages, strong balance sheets, diversified revenue streams, and long-term growth opportunities supported by powerful secular trends.

When we evaluate an investment, we're looking for businesses positioned to compound value—not companies whose future may increasingly depend on favorable legislation, regulatory outcomes, or shifting public opinion. We don't simply evaluate whether a company is profitable—we evaluate **how durable those profits are likely to be.**

That means focusing on businesses that generate consistent free cash flow, earn attractive returns on invested capital, maintain disciplined balance sheets, and possess meaningful pricing power. We also place significant value on leadership teams that allocate capital wisely—executives who reinvest strategically, manage debt conservatively, and make decisions that strengthen long-term shareholder value rather than maximize short-term earnings.

Equally important is understanding **how** a company earns its profits. We favor businesses whose competitive advantages are rooted in innovation, operational excellence, customer loyalty, intellectual property, or products and services that solve enduring needs. These characteristics create resilient business models capable of navigating changing economic environments without relying heavily on favorable legislation, evolving regulations, or shifting public sentiment.

Investment success isn't simply about finding companies with impressive earnings today. It's about identifying businesses that can continue generating those earnings through multiple economic cycles while adapting to changing competitive, regulatory, and consumer landscapes. Companies with resilient business models and durable economic moats often provide a stronger foundation for long-term wealth creation than those facing persistent structural headwinds.

Our Managed Risk Approach

This philosophy naturally aligns with what we call our **Managed Risk Approach**. That means we're not simply asking, *"What investment has the highest return potential?"* We're also asking: **"What risks are we being compensated to take?"**

Every investment carries risk. Our goal is not to eliminate risk—that would be impossible—but to distinguish between **productive risk**, which has the potential to reward long-term investors, and **avoidable risk**, which may offer little additional compensation despite increasing uncertainty.

Rather than attempting to predict every headline, election outcome, or regulatory decision, we seek to build portfolios around businesses that have demonstrated the ability to adapt, endure, and compound value over time. We believe reducing exposure to avoidable risks allows the power of disciplined investing to work more effectively over the long run.



"Successful investing isn't about avoiding all risk. It's about distinguishing between productive risk and avoidable risk."

Investing with Intention

There are thousands of publicly traded companies around the world. Our job isn't to own all of them.

Our job is to identify those that best fit our investment discipline and our clients' long-term objectives.

For us, avoiding certain industries isn't about making a statement. It's about remaining consistent with an investment philosophy that emphasizes thoughtful risk management, disciplined security selection, and long-term stewardship of capital.

Every portfolio reflects a series of choices.

We choose to focus our research and our clients' capital on businesses we believe possess enduring competitive advantages, sound financial fundamentals, and the ability to create value through changing markets and economic cycles. Our investment decisions are guided by a disciplined process—not by emotion, headlines, or short-term trends.

That philosophy has shaped Summit Global Investments since our founding.



Dave Harden is the Founder, CEO, and Chief Investment Officer at Summit Global Investments (SGI), a firm he built with a steadfast commitment to disciplined investing, risk management, and a vision for long-term financial stewardship.

Under Dave's leadership, SGI has grown steadily over the past 15 years to become a fully integrated enterprise group, combining investment management, private wealth, family office, and insurance expertise. Now with over \$2.5 billion in assets under management (AUM), SGI continues to expand its national presence and capabilities. A respected voice on the markets and investment strategy, Dave is regularly sought out by national financial media for his perspective on market trends, economic developments, and the forces shaping investor portfolios.



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