

Balancing Heaven and Earth When Choosing Investments

Kathleen Nemetz, MBA, CFP

www.life-as-planned.com

When funding long range goals, many people feel they must choose between their money and their values. That's because in choosing funds and stocks, investors often assume that putting moral values first will put a drag on portfolio returns.

Ironically, with the dramatic decline of the energy sector in preceding quarters, this assumption has proven false. Returns for some of the leading ETFs and funds aimed at socially conscious investors actually exceeded common stock indexes like the S&P 500 for 2017, as an example. (see chart)

Whether this outperformance may continue in the future is anyone's guess. But, the anomaly does open the door to questions about whether investment choices made with a social conscience may indeed still make money for the investors concerned.

I will be taking on the topic of social investing at an upcoming seminar Saturday, March 24, from 10-11 a.m., at Venture Pad, 1020 B Street, San Rafael. See registration link below.

There are many criteria that can be classified as socially conscious. A short list might include environmental or green concerns, for instance, faith-based values, or beliefs about war and peace and their relation to armaments. Some mutual funds which are not formally classified as socially conscious may indeed exclude makers of alcoholic beverages, cigarettes and tobacco products.

Funds and ETFs that are branded as socially conscious may go further, to embrace only holdings that fit defined criteria for environmental, social justice, and employment standards.

While a company may be classified as highly rated for environmental, social and governance, many more companies are actively implementing internal strategies to align stated company principles and the company practices and ethics. Good ESG (environmental, social and governance) ratings have been linked to good performance, for these companies.

Mutual fund companies active in this space vary in their level of engagement with the companies they invest in. Some work with the companies they have chosen to help them do better.

A recent article in Forbes <https://www.forbes.com/sites/moneyshow/2017/08/16/socially-responsible-investing-earn-better-returns-from-good-companies/#33d26abe623d>

compares various fund companies (prospectus upon request) and their offerings according to style and performance. While the article does not assess exchange traded funds, that is, index versions of ESG compliant companies, investors can and should compare these often lower cost alternatives.

A fund company that in recent years bought out the well-known Calvert line of socially responsible funds has chosen to hold a variety of companies in its funds. The names of these companies included can be surprising. While one might not be surprised to find Apple for instance, in this lineup, there are other companies like Capital One, Citibank, General Mills and Adobe that also show up on their lists.

To explore the link between sustainability and performance, professor George Serafeim and his colleagues at the Harvard Business School surveyed an 18-year history of 180 companies trading in the US markets. The study concluded that high sustainability companies significantly outperform their low sustainability counterparts.

Fund companies may create discretionary categories for rating companies including carbon emissions, workplace safety and water stewardship. Deciding on which of these criteria to favor requires some introspection and hopefully a discussion with your trusted advisors. Your preferences should be articulated in the investment policy you create for your accounts and should even be potentially be stated in your trust documents if others may eventually have a hand in managing your accounts.

The point is, you can still make money and feel good inside, and act with integrity to realize your goals. You just need to plant the right seeds into your processes for choosing investments.

I am happy to help. Check out my workshop, or call me for an appointment. Or both.

Chart: (prospectuses upon request)

