

banking benevolence

Socially Responsible Investing for Beginners

Like it or not, money really does make the world go 'round, and the force that makes the global economy revolve is the international stock exchange. This is especially true in the 21st century, as transnational conglomerates—for better or worse—play an increasingly influential role in our lives and exercise their power to shape the social and political landscape. In the highly competitive modern marketplace, large corporations depend on their stockholders' financial backing not only for their success, but often their very survival. This pressure can lead businesses to do almost anything to please their financiers with big fiscal returns—even if it means destroying the environment, exploiting workers and killing animals in the process. **By Mat Thomas**



YET, CAPITALISM DOESN'T HAVE TO BE A downward spiral. The enormous power of free enterprise can instead be the engine that drives social change and creates a more sustainable and compassionate future for all. At least, that's the theory behind socially responsible investing (SRI), a values-based approach to building capital for those who believe making a difference is at least as important as making a profit.

Rather than buying stock in any old business that promises a return on investment (even at the expense of others), socially responsible investors put their cash into companies that reflect their personal ethics to bring about the kind of world they want to live in. Whether the issue is environmental conservation, corporate accountability, human rights or animal welfare, SRI allows investors to follow their consciences while (hopefully) developing a secure financial future.

Socially Responsible Investing—Then and Now

Investing with social implications in mind dates back to biblical times, when Jewish law first forbade unethical transactions. Centuries later, Quakers, Methodists and other religious groups refused to support the slave trade and other ventures that depended on human suffering, furthering the abolitionist cause. The turbulent 1960s saw the emergence of the first SRI mutual funds—Pax World funds and Dreyfus Premier Third Century Fund—which protested the war in Vietnam by excluding companies with military contracts.

SRI continued to grow in the '70s and '80s as millions of individuals and thousands of organizations worldwide divested from industries supporting South Africa's apartheid government, ultimately helping topple the oppressive and racist regime. Environmental issues leapt to the forefront for socially responsible investors in the 1990s as people became more aware of ozone depletion, global warming, and other serious threats to the planet and humanity.

Today, SRI represents about \$2.3 trillion or almost 10 percent of total investments, up from about \$40 billion in 1984. In the last decade, SRI mutual fund assets have grown at such an accelerated rate that they have outpaced the mutual fund industry as a



Socially Responsible Mutual Funds

A good investments for beginners, mutual funds offer instant diversification and require a relatively small minimum financial outlay. The following are some of the most popular SRI mutual fund companies, many of which also offer personalized financial management services.

Calvert Group
calvertgroup.com

Citizens Funds
citizensfunds.com

Domini Social Equity
domini.com

Dreyfus Corporation
dreyfus.com

Green Century
greencentury.com

New Alternatives Fund
newalternativesfund.com

Parnassus Investments
parnassus.com

Pax World Funds
paxworld.com

Portfolio 21
portfolio21.com

whole. The expansion of SRI is only expected to continue in the coming decades as the Baby Boom generation—which was shaped by the social movements of the 1960s—inherits more wealth with their

parents' passing.

SRI not only appeals to the socially conscious, it has also produced surprisingly high financial returns. In the last five years, the companies with the highest corporate governance ratings have actually outperformed Standard and Poor's 500 by an average of 16 percent. One explanation for this is that socially responsible companies are less likely to be sued or fined for bad business practices, or tie obscenely high executive salaries to quarterly financial performance. Whatever the reasons for these companies' success, it's clear that SRI allows people to support causes they believe in while building financial security for themselves.

Putting Your Money Where Your Heart Is

So you want to invest responsibly but don't know how to proceed? That's perfectly understandable, given the dizzying array of options available to today's investors. The completely confused would do best to start by considering the three most common investment strategies:

Collective Bargaining: Mutual Funds

A mutual fund is a type of joint speculation that allows people to invest in dozens or even hundreds of companies for as little as \$1,000. Mutual fund managers do all the hard work of deciding which stocks to buy and when to sell, saving investors time and effort.

Most small investors start out with mutual funds because they offer instant portfolio diversification. Investing in a large number of companies from a broad range of industries protects against major losses when a single company or industry slumps. It also saves a significant amount of money on trading commissions associated with buying individual stocks. Today, there are nearly 600 self-defined SRI mutual funds, and many employers even offer SRI options through 401(k) retirement plans.

The downside of mutual funds is that someone else chooses the companies to invest in, some of which you may deem socially irresponsible. Some mutual funds deliberately buy stock in companies known for undesirable business practices to change their policies through shareholder advocacy. Yet, a study by the San Francisco

think tank Natural Capital Institute (naturalcapital.org) showed that only 10 SRI mutual fund companies introduced shareholder resolutions in 2003. Be aware that every mutual fund company employs different social screens and investment strategies, so make sure to choose one that reflects your distinct values and expectations.

DIY Investing: Stocking Up

Most people think investing in the stock market means opening an account with a broker and buying stock in individual publicly held companies. While entailing a lot of homework, this do-it-yourself approach provides some real advantages, such as allowing you to screen out companies and industries that don't fit your specific moral principles. Plus, when you personally own stock in a company, you are entitled to vote on corporate policies and change the way they do business.

While buying stock on your own may sound enticing, be forewarned that speculating on the market requires a certain amount of expertise and carries considerably higher economic risks than buying into a mutual fund. If you are determined to go solo, be sure to choose companies based on their performance rather than your emotions: investing in a company that you believe in but isn't financially solvent can endanger your fiscal future. To find companies that meet your personal ethical standards, start by looking at those chosen by socially responsible mutual funds, then research their business practices and corporate ownership.

Get Professional Help

The safest bet in trying to navigate the complex world of investing is to hire a management firm to create a customized portfolio that provides sound returns—both financially and socially. Just be sure to choose an advisor who thoroughly understands your specific goals and values.

Investing in a Brighter Future

Even if you never see a financial return on your investment, what you do now with your personal resources can positively affect the world—and even the future of all life of earth—far beyond your lifetime. Socially conscious individuals realize that

how we live today determines not only our own quality of life, but also the kind of world we leave to subsequent generations. Given their size and power, corporations must play an integral role in ensuring a

better future for all, and SRI can help create more conscientious companies. **VN**

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Investing for Veggies an exercise in compromise

As a vegetarian, you're used to going the extra mile to make sure that your consumer purchases don't support businesses or industries that harm animals. Now you want to start planning for your fiscal future, and are prepared to put those same efforts into practice as a novice investor. However, if you think being veg in a society that exploits animals is hard, just try keeping your money clean in the complex world of financial investing.

The reality is that there simply aren't enough publicly held vegan companies (i.e., those that don't engage in animal exploitation of any kind) to comprise a suitably diversified portfolio. Most purely vegan companies are small and privately held, requiring venture capital investments that are typically high-risk. Nearly all publicly held companies that make vegan goods also market products made from animals, so giving them money promotes practices that most vegans would consider unethical.

So what's a veggie investor to do? One solution is to consult a professional financial advisor who

understands what vegans want in an investment strategy. Brad Pappas, founder of Rocky Mountain Humane Investing (greeninvestment.com) is one such expert, having specialized in "cruelty-free investing" for more than a decade. "I have a lot of experience creating customized portfolios that reflect my clients' compassionate values," says Pappas. "I believe strongly in never pressuring people to invest in something that neglects their moral stance."

Timothy Smith, president of the Social Investment Forum (socialinvest.org), the SRI industry's trade association, urges vegan investors to use the power of shareholder advocacy to improve corporations' animal husbandry practices. "Though animal welfare is still a relatively minor issue on the shareholder action agenda," notes Smith, "I've seen a number of meaningful changes in company practices in recent years." While some vegans may be uncomfortable with such minor concessions in how animals are treated, they may be necessary to bringing a more compassionate world into being.

