

Demonstrate Your Values without Losing Investment Value

Many investors don't want to support companies that make harmful products, pollute the environment or treat workers in a shameful manner. Even worse is a dishonest company that lies to shareholders or siphons away their funds.

That's why social responsible investing (SRI) has emerged as a powerful force in the global financial markets. Today, there is much greater concern about corporate environmental, social and governance (or ESG) issues than ever before.

In fact, the nonprofit Social Investment Forum estimates that about 12 percent of U.S. investments under management fall into the SRI category. Over the past decade, the Enron scandal, the BP oil spill in the Gulf of Mexico and Apple's labor problems in a Chinese supplier have brought ESG issues into the limelight.

As a result, many investors want to support companies that uphold their personal values. However, it's not always easy to group companies into two distinct categories: good and bad, particularly when they have multiple operations and lines of business around the world.

However, there are two leading "social indexes" that help investors and managers sort out who's who in this sector of the financial world. The MSCI KLD 400 Social Index™ covers 400 U.S. companies with SRI characteristics and the Calvert Social Index™, which includes U.S. large-cap companies that meet SRI criteria.

In addition, a growing number of mutual funds use SRI or ESG criteria when selecting assets to add to their portfolios. These types of funds, which can include corporate stocks, bonds or a mixture of assets can be purchased directly by individual or institutional investors.

However, some investors wonder if making socially responsible investment choices will jeopardize potential returns on their assets. In other words, is there a tradeoff between investment performance and doing the right thing?

Fortunately, the answer appears to be no. In fact, a company that demonstrates a commitment to SRI principles may potentially generate higher and more sustainable returns over the long run. For instance, a management team that is committed to humane workplace practices at its overseas facilities is more likely to have a loyal and productive workforce than a company that abuses its employees.

If you are interested in a socially responsible investment strategy, there are several steps you can take. First, take a close look at your own values, and incorporate them into a personal investment policy statement. This is a formal document that will help stay focused and guide your financial advisors.

Then, start doing your homework, and seek out companies or funds that meet your SRI criteria, and are also generating positive returns. Again, financial performance and being socially responsible often go together.

Don't feel that you have to limit your investing world to U.S. stocks and bonds, either. Financial regulators in emerging markets like Brazil, India, Mexico and China are requiring greater transparency in corporate activities in order to promote good governance principles. In addition, many foreign-based multinationals have embarked on large-scale SRI programs designed to improve living conditions and healthy environments in local communities.

If you are committed to a long-term investment strategy, learning about SRI principles and the companies that put them into practice can help you make better decisions. This is an important trend in the investment world, and one that is likely to become even more significant in the future.

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