



## What about ‘socially conscious’ investing??

Many people look for ways for their investments to express their environmental and social concerns.

But are “socially conscious mutual funds” the best way to do this?

One often hears that by not investing in companies that produce and sell “bad stuff” – like alcohol, tobacco, guns, drugs, nuclear power and so forth, you as an individual can change the way these companies do things. It is a nice idea and in response, a number of socially conscious mutual funds have sprung up that don’t own securities issued by “the bad guys”. But how effective are such funds?

At last count there were about 196 mutual fund offerings that fit these or similar criteria. As an example, the PaxWorld Fund states in its advertising

*“Socially responsible investing (SRI) integrates personal and social values into investment decisions. This approach recognizes the fact that investment choices are not made in a vacuum where social and environmental concerns can be ignored.*

*Quite the contrary, those concerns can affect not only how an investor feels about owning the stock of a particular company, but how that company will perform financially in the future. In this sense, investing is like voting: each dollar invested represents a vote for the kind of company that an investor believes will demonstrate leadership in addressing challenges being faced by its industry.*

*While many investors want a way to express their environmental and social concerns, few have either the resources or the time to be effective individually. Here is where socially responsible mutual funds play an important role. By challenging companies to meet ethical standards, by monitoring corporate behavior, and by using shareholder voting rights to influence business practices in a positive fashion, socially responsible mutual funds give investors a collective voice in corporate decision making.”*

SRI funds tend to be multi-sector funds in disguise, concentrating on “clean” sectors such as technology, health care

and financial services and excluding industrial and energy sectors that would include firms such as (for example) Exxon Mobil and Phillip Morris. Some SRI funds even exclude investments in US Treasury bonds. Some people believe that US Government actions are responsible for the agents of violent death and thus Treasury bonds fund the killing of innocent civilians. You can construct an investment portfolio using only socially responsible funds. But does this choice have an impact on the security of your future financial ?

Our basic observation is that you have a choice to make

Do you limit the potential of your portfolio performance (and thus your future wealth) by excluding some of the market sectors ?

Or, do you accept the potentially higher return that you would get by investing in non- SRI



FEBRUARY 2006



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mutual funds and instead make contributions directly to the charities of your choice; organizations that in fact put "boots on the ground" to directly help ameliorate what you perceive to be a social injustice?

Socially Responsive funds are usually also actively managed funds with higher annual operating costs. Compare the PaxWorld fund with the DFA Large Cap Value Fund:

- \$10,000 invested 5 years ago would have today grown to \$15,469 (8.27% average annual total return) in the DFA Large Cap Value and only to \$11,530 in the Pax World Fund (2.93% average annual total return). This \$4,000 difference can be thought of as a "social indifference profit" that you could donate to a charity. This would not only allow the charity to do real good, but would also give you a tax-deduction!

Realistically your investment in a non-socially responsible fund would have zero effect on the

financial strength or operations of companies that you might consider objectionable. The stocks that a mutual fund holds are bought and sold in the secondary market - like the New York Stock Exchange- and thus do not involve the company that actually issues the stock. In our opinion, "socially conscious" mutual funds are a costly "feel good" option and, in truth, an inefficient way to actually change the world.

Giving directly of your own resources- time, money, talents and energy - is a much better way to change the state of the world. Some of our clients have followed their passion by spending time volunteering at international charitable organizations such as the American Cancer Society, the American Refugee Committee and the Red Cross.

Other people focus on donating time and money to local charities, where the impact is often more immediate and personal. For instance, Robin is active in The Upper Room, a group in

Derry, NH that works with children at risk.

Another client gives money & time as a volunteer at UpReach in Goffstown, NH, a wonderful organization that helps mentally challenged kids build coordination and confidence by learning to ride and care for horses.

This is also why our Holiday "thank you" gift to our clients takes the form of a Northstar donation made in their name to a selected international charity. Last year it was the American Refugee Committee, a truly inspiring organization that gives aid and comfort to the displaced and stricken of the world in not only tsunami-torn Thailand but also to the victims of Hurricane Katrina in New Orleans.

