

Will Socially Responsible Investing Clear a Client's Conscience?

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Socially Responsible Investing (SRI) is an underlying philosophy to put a personal statement on the meaning behind an investment portfolio. According to a June 2007 report by Renneborg, Horst and Zhang on the *Methodology, Risk Exposure and Performance of Socially Responsible Investments*, the SRI process “adds a set of positive and negative social, environmental and ethical screening criteria to traditional financial analysis.” SRI investing includes several factors: environmental, political and religious (one of the fastest growing), as well as others.

Background/History

Originating from watershed events, such as the Vietnam War and Earth Day, SRI investing was born in 1971 with the creation of the Pax World Fund, now called the Pax World Balanced Fund. No longer a feel-good approach that forgoes substantial returns, today there are more than 220 SRI investment options with approximately \$2.3 trillion in SRI-related investments, nearly 10 percent of all professionally managed money in the U.S.

SRI investors are not typically dismayed with higher management fees or risk ratings. Any incremental analysis costs of locating businesses that adhere to strong corporate social responsibility standards may be offset by enhanced shareholder values. Also, the flows into and out of SRI funds are less subject to market volatility than those of conventional funds.

Finding a Fit

Introducing a discussion about socially responsible investing with your clients should be done early in the client relationship. Just like other factors of a sound investment strategy — risk tolerance, liquidity needs and expected

time horizons — a client's personal values toward investing should be taken into consideration. A fund's prospectus should clearly indicate its SRI mission. For example, MMA Praxis Mutual Fund's website states that the companies it invests in strive to:

- Respect the dignity and value of all people.
- Build a world at peace and free from violence.
- Demonstrate a concern for justice in a global society.
- Exhibit responsible management practices.
- Support and involve communities.
- Practice environmental stewardship.

Investor Conflict

SRI alternatives that emphasize personal values will be in conflict among different members of our society. Some investors are delighted that certain companies are amending their corporate policies to benefit same-sex partners, while other investors are angered by these changes.

Another conflict within the process is whether an investor will want to have a proactive or reactive response to the screening process. If you find a company that violates your values on the environment or human rights, should you boycott that company or become a shareholder to become an advocate for change?

A Study in Contrasts

Complying with SRI constraints can occasionally have negative planning implications. One of my recent financial planning engagements included assisting a client in establishing a portfolio to cover the college tuition costs for his children. I was told that the investment strategy had to be “Shariah compliant,” that, per the *Koran*, a client could not invest in any interest-paying instruments, thus creating an investment planning

conundrum. The solution was to research and invest in Islamic mutual funds and conservative equity mutual funds. While this approach adversely increased the portfolio's risk, it maintained the client's religious investment integrity.

Single Versus Institutional Investors

SRI investment perspectives will be different for individual investors versus institutional ones. Whether to incorporate certain SRI values into the investment process has been especially controversial to trustees of qualified plans and larger institutions. While it may make sense for an educational endowment fund at a major university to screen for human rights issues, other institutions may chose to downplay this moral element.

Some new SRI funds may take a personal values issue a bit too far. The Blue Funds will invest “only in those companies whose political contributions demonstrate a sincere commitment to core Democratic values.” Fortunately, we have not yet been burdened by the need to review the performance of a fund representing Red States. So, clearly, these aren't your father's SRI funds. And it behooves financial planners to make this investment option available to clients. ■

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