

## **Financial Advisor Magazine – March 2005**

### **A Passion For Values**

**By Karen DeMasters**

Some advisors are focusing their practices on socially conscious investing.

Mary C. Rinehart, a certified financial planner, founder and president of Rinehart & Associates in Charlotte, N.C., describes herself as a "tree hugger from way back." Now, she heads a financial planning and asset management firm that puts that same "tree hugging" philosophy into practice for her clients through socially conscious investing, which she calls, "Investing with your values."

Although her description of herself might be a bit cliched, it fits a growing number of financial planners who have turned their personal beliefs into a business philosophy for their clients, as they navigate the rewards and risks of investing with a goal of advancing social causes as well as making money.

The phenomenon of investing for a purpose, as well as for profits, has grown from a fledgling industry dismissed by serious financial planners to become a significant share of the investing community that planners and corporations can no longer ignore. A growing number of financial planners are dealing predominantly with socially conscious investing, while some are developing an expertise in it because of personal beliefs. Others are just beginning to get their feet wet through clients who inquire about putting their money to work for their values.

"I started thinking about socially responsible investing a long time ago," says Rinehart, "when I had to take care of my family's financial affairs. That is how I eventually ended up here," as a CFP who advertises services for socially conscience clients and whose SRI clientele is growing. Along the way, Rinehart has served as president of the local chapter of the Institute of Certified Financial Planners and received a Business Achievement Award from The Business Journal of Charlotte.

"Before I was a financial planner, I helped establish a tree commission and helped divert a road to save trees, so I have always worked for the environment. Now, as a planner, I feel if someone has a passion for values, I have to help them put their money where their mouths are. But this is a new way of thinking about investing money, and it is not a decision to be made quickly. I have to get to know someone first and determine what they want," says Rinehart.

Those who dismiss socially conscious financial planners as being a fringe element of the financial community, or those who think an investor has to sacrifice returns in order to promote his or her values, are wrong, Rinehart and other SRI planners say.

According to the Social Investment Forum, an industry organization that tracks social investments and releases a study on the status of SRI every two years, socially responsible investments climbed to \$2.14 trillion in 2003, an increase over 2001, and a dramatic growth from its small beginnings in 1972 of \$200 million. Investment portfolios screened for social or moral responsibility grew 7% from 2001 to 2003, while all professionally managed portfolios fell 4% during the same period, the Forum's most recent study says.

Like investment returns in general, SRI investments can be up or down, depending upon the particular investments or time periods quoted. Although SRI domestic stock funds have not done quite as well as non-SRI domestic stock funds in recent years, according to Morningstar Inc., even those numbers can be deceiving. SRI domestic stock funds returned 9.93% in 2004 compared with 11.95% for non-SRI funds. In the worst market year, SRI stocks lost 20.8% while non-SRI stocks lost 20.37%, according to Morningstar.

"Those numbers can be misleading. Like any other stock you have to look at what SRI stock you are buying," says Greg Carlson, Morningstar fund analyst. "This is a broad group. There are single-issue funds that focus on, say, the environment, or that are oriented toward a particular religion, Christian or Islamic, that do just as well as overall funds. Investors should not lump all SRI funds together."

Tom Roseen, senior research analyst with Lipper, a Reuters company that tracks investing, agreed. "Not all SRI funds are created equal. It depends on what the focus is. If we are involved in a war, and you do not want to invest in armaments, you will miss out on that. But when the war is over, and we de-escalate, those with military investors may be stuck with excess baggage.

"You have to consider the stickiness of the assets. Most who invest for a cause stay the course, and in the end they will have a positive net flow," Roseen says.

The returns for the past year for SRI stocks averaged 3.51%, compared with returns for all U.S. diversified stocks of 4.13%, but the range for individual SRI stocks is wide, everything from 1% and 2% losses to 10% and 12% increases, according to detailed calculations by Lipper.

No matter what the returns are, more and more investors are beginning to question where their money is going and what it is doing, says Lincoln Pain, a certified financial planner in Berkeley, Calif., who is a representative of First Affirmative Financial Network, a Colorado-based investment advisory firm that specializes in serving socially conscious investors. Like Rinehart, Pain, a civil rights worker in the 1960s, describes himself as a lifelong social activist. In the financial field, he has been a board member of the Social Investment Forum and is now chairman of the Northern California chapter of the association.

"The Calvert Group, which manages several SRI funds, commissioned several studies recently that showed that 71% of investors say they are more likely to invest in mutual funds that invest in companies involved in the community, 67% say they are more likely to invest in mutual funds if one of its principles is concerned with the environment, and 63% who do not have an SRI option in their 401K said they would like one made available," Pain says.

"The message is that everywhere across America, financial planners are serving clients who have social concerns," he concludes. "Planners need to ask investors what their social concerns are, such as tobacco addicting children, pollution, nuclear weapons, or corporations that discriminate or use sweat shops, rather than simply asking if they are SRI."

Planners who serve clients' social concerns, whether the client initially acknowledges those concerns or not, are better serving the client and themselves, Pain argues. "When I involved clients in shareholder activism, they stayed with me, even during the down years of 2000 to 2002."

Some SRI funds have come under criticism recently for not being responsible enough. Paul Hawken, author, environmentalist and entrepreneur, has lead recent attacks saying SRI funds have no real standards and their investment portfolios do not differ much from standard portfolios. A recent story in Fortune magazine questioned how green environmental funds really are, even as they gain market share and meet performance goals. Creators of the funds defend their investment choices and some work to change the less-than-perfect companies where investments are placed.

"Every dollar you invest is doing two things: working for you financially and helping to capitalize the corporations that are creating the future in which that money will be spent. This is always happening, whether you pay attention or not," Pain warns. "SRI is in the process of taking responsibility for both of these things. If we capitalize pollution, how much will that clean-up cost our children? It is a myth to think SRI has no effect on the corporations. Nelson Mandela thanked social investors for helping to end apartheid."

Moore of First Affirmative says she was engaged in shareholder advocacy before she even knew there was a term for her activities.

"I am a product of the '60s, so my interest in social causes came before I became a professional planner," Moore says. "I inherited some stocks and started with that. Then when I decided to become a CFP®, I knew that was the approach I would take. As it turns out there are a lot of people in the Portland area who want to be conscientious in what they buy. I do not turn people down if they are not interested. I follow the client's lead, but a lot of the process is having that conversation with the client. Sometimes they are vague and sometimes it is quantifiable. Sometimes there are compromises that have to be made. For instance, a company's history of labor relations may be harder to measure than their effect on the environment, and the SRI universe is smaller, so you have to substitute. I put real estate investments in the mix to diversify. But there are a lot of Web sites and publications to help the planner learn about funds and learn to balance portfolios."

Each of the planners interviewed noted the growing number of outlets for information and for exchanging tips and sharing questions. These include First Affirmative, the Social Investment Forum, GreenMoneyJournal.com, shareholderaction.org, coopamerica.org and socialfunds.com, and the growing number of SRI funds themselves-Domini, Pax, Portfolio 21, Calvert, Citizens Fund, the Parnassus Equity Income Fund and many others. The main factor for those involved in SRI advising is to present it as an option to clients.

"We cannot be afraid to present it as an option," advises Kathleen M. Rehl, of Rehl Financial Advisors in Land O'Lakes, Fla., who also arrived at socially conscious investing via a personal route. A former college professor and employee of not-for-profits for ten years, she is married to a minister and accepts only clergy and others of "generous spirit" for clients.

"I work with middle-income clients, doing a number of different screens for investments. I call what I do 'values-based planning, but the financial returns are quite similar to other investments. Perhaps these types of companies are less litigious in nature and therefore have lower costs."

Portfolios can be created by eliminating some companies through negative screening or including others through positive screens, but what those screens include and the goals of the investor can vary drastically from one client to another. For that reason, the client needs to take the lead in setting the standards, not the financial advisor.

For Jerry Wade of Wade Financial Group Inc., in Minneapolis, the process includes both socially responsible and morally responsible screening, if the client wishes, so that the investments can reflect environmental or labor concerns and conservative Christian values, as well.

"We tried this ten years ago and it fell flat on its face, but then recently we had a client ask for it and he refused to invest with us unless we could construct a socially and morally responsible portfolio," Wade says. "We created Integrity 100, 100 stocks that screen out morally offensive investments, such as antifamily entertainment or abortion advocates, and it has been a winner."

Wade's other passion is corporate malfeasance and corporate scandals, and he has created the Fundpolice.com, where anyone can research corporate governance before investing.

Wade's morally responsible investments are becoming more popular, although people may select different items to be part of the screen. The most popular one, which crosses religious denominations, is screening out any company that deals in anti-family entertainment, such as offensive rap music or pornography. Others who are against abortion will not invest in pharmaceutical companies that produce the RU46 abortion pill, or any companies that provide support for Planned Parenthood. Screens can also be added to eliminate gambling, tobacco and alcohol.

"The most difficult is companies that aggressively promote nonfamily lifestyles, such as providing health care benefits for unmarried couples. That eliminates about 50% of the S&P 500 now and some say it will be 90 percent soon. I tell clients they have to think carefully about how important that issue is to them," Wade says.

However, many small and mid-cap stocks are still available to these investors, he said.

In many instances, investment advisors and organizations that screen for religious values, as well as social issues, are becoming more active as stockholders, putting pressure on companies that do not strictly adhere to the values the investors would like. Members of the Interfaith Center on Corporate Responsibility, an association of 275 faith-based institutional investors, recently filed shareholder resolutions demanding more accountability from pharmaceutical companies about where their political contributions go.

Likewise, Christian Brothers Investment Services Inc., based in New York City, works with companies it invests in to promote human rights or other issues.

"We have had great success in changing companies. The goal is to open a dialogue with the company, but, if we can't, we encourage shareholder resolutions," said John Wilson, director of socially responsible investing for Christian Brothers. The organization invests for Catholic institutions based on the guidelines of the Roman Catholic Church and has \$3.5 billion in assets under management for more than 1,000 Catholic institutions.

Christian Brothers investments are screened to eliminate companies that promote abortion or contraception. Companies that support embryonic stem cell research were recently added to the ban. Major military contractors are eliminated, as are those that support the use of landmines or make firearms.

First Affirmative representative Jim Frazin, founder of Your Money and Your Life in San Francisco, maintains that screening out companies that are poorly or criminally governed, as well as ones that treat employees or the environment poorly, improves the bottom line for investors.

"I started in the '70s managing cooperatives and credit unions, socially responsible organizations, so that is also the way I approached investing from the beginning, and the Bay area seemed ripe for that type of financial planning," Frazin says.

"People with any kind of conscience want to do this, and they fare reasonably well financially. SRI is rapidly approaching the mainstream; 75% of the people have heard about it or thought about it, and stressing corporate responsibility has had a huge impact. When shareholders take action to bring changes to a company, even if they are voted down, it at least means the issues are being discussed. Instead of talking about the bottom line, they are talking about how to improve the world, and that in turn often translates into bottom line improvements," Frazin argued.

Paul Winter, on the other hand, did not set out to do SRI and was taken by surprise when he opened a new practice and two clients asked him about it. Founder of Five Seasons Financial Planning in Holladay, Utah, he noted that many of his clients moved to Utah to be closer to nature, so environmentally responsible investing is a niche he wants to cultivate, although he acknowledged SRI makes the advisor's job more difficult.

"Sometimes it is a lack of education on the client's part about the availability of funds that keeps people from asking. At the same time, one of the weaknesses currently of SRI is the lack of international funds to invest in, but I think that will develop eventually," Winter noted. "But that brings up a question: If there are funds available that do not quite meet a planner's financial criteria, should we be relaxing our investment philosophies or biases somewhat to accommodate the values or desires of our socially conscious clients?"

It is a question Winter says he will have to confront as he develops a socially conscious client base.

Karen DeMasters is a freelance writer based in New Jersey who is a regular contributor to The New York Times and various business publications.

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