Are you being green washed?

What if you could support causes you believe in based on the choices you make in your 401(k)? You'd probably do it. Thousands of people are. But if you are, watch out. You may not be accomplishing what you think. And whether or not you are, your long-term growth is definitely suffering.

It's a new trend called ESG investing.

The idea is you reward companies that engage in positive environmental, social, and governance practices by investing in their stocks. Sounds good. But the idea has a host of problems and here's probably the biggest – greenwashing.

Greenwashing is the practice of making it look like you are doing good for the environment or some other social goal even if you're not really doing anything different. Greenwashing is using the term ESG to make a company or investment more attractive regardless of whether they are committed to it. Its pure public relations.

Greenwashing can be applied to all kinds of things, even countries. At the cop 26 conference last week governments came together to talk about how they will continue to work on climate change. The 26 refers to how long they've been meeting. And how effective have they been? Well if they've met every year for the past quarter-century let's take a look at what carbon emissions have done over that time. They are up 60% since they started getting together. Forget about reducing greenhouse gases – they are higher than ever with no sign of slowing down.

Still, you may wonder, even if they are not hitting their goals, why not reward companies that are at least saying the right things? Here's why - Because it slows the growth of your investments.

Here's one of the ways how. Mutual funds that claim to invest according to ESG principles have a reason to raise the expenses they charge you. It takes additional staff, they argue, to research companies and evaluate how progressive they are on those environmental, social, and governance goals. Those higher expenses put a drag on your portfolio. Your investments need to grow more to overcome that additional expense. Over time, that can cost you a lot of money. There are other ways, too, but this may be the biggest one.

Those investments may not even make the world better. There is no standard for ESG compliance. And how should a particular company be evaluated based on its environmental, social, and governance goals? If a company works to reduce its carbon footprint but refuses to undertake any diversity, equity, and inclusion goals should you invest in it? It gets really complicated really fast. It's hard to know if you are actually investing in the kinds of efforts you want to reward. If you invest in a mutual fund that's charging you an extra half percent for the benefit of being conscientious investor, do you know how they are making their investment decisions?

Another problem is that nations and companies are not being evaluated on the progress they make but rather on the goals they set. How often do you hear of a government or corporation that misses its goals? All the time, right? So that makes for a pretty weak statistic when choosing companies to invest in. For example, some companies are promoting a goal of net zero carbon emissions by 2050. That's almost 30 years from now. Why don't we talk about how much they will reduce emissions in the next three years? Because then they can be held accountable.

I care about the environment. I am worried about global warming. So I do things to try to reduce my carbon footprint. I eat less beef. I turn down the thermostat a little. I think it's great if you feel the same way.

But don't get caught up in the marketing hype. ESG is a great opportunity for investment companies to charge higher fees. That's not going to cure global warming. But it will reduce the growth of your portfolio. Don't fall for it. Stick to the time tested and proven investment principles and keep an eye on fees. And take personal (not portfolio) action on the causes you support.