

# 5-minute Finance: Rising Interest In Faith-based Investing

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 For AdvisorNews

A long-standing rule of good investing is diversification – the more spread out your money is, the better off you could be\*. A new societal consensus has spurred a shift from that rule: now, the places you put your money reflect your values and the kind of person you are.

ESG (Environment, Social and Governance) and “impact investing” (<https://advisornews.com/oarticle/77-of-millennials-have-made-an-impact-investment-but-only-53-of-advisors-understand-the-concept-well#.XcL7sVVKiUJ>) have attracted significant buzz and are premier examples of this social rule, but advisors should also prepare to discuss another source of investing values - faith. Our clients’ religious beliefs can be primary sources for the values by which they live their lives, and using those beliefs to shape clients’ portfolios should become a standard service that advisors offer in the social-good landscape.

## A steady buildup

With every client, an important step of portfolio construction is asking if they have specific companies or sectors they wish to invest in, and any they want to avoid. These asks range from well-known trends like environmentally-friendly investing to less common requests like avoiding the private prison industry. Part of client satisfaction is their approval of where their money is, so determine as early as possible how strict your clients wish to be in terms of their investments.

Faith-based investing involves using a client's religious beliefs to guide portfolio creation. Many Christians will call it Biblically-aligned investing, or Biblically responsible investing. Their approach stems from the belief that God owns everything, and that Christians are only stewards of the money that God has blessed them with. This stance is similar to the fiduciary responsibilities one would have as a trustee of a trust fund. Clients from other religious backgrounds may also engage in faith-based investing. Traditional Islamic law, for example, bans charging interest on loans, and some Muslim clients will want advisors to follow the rules of Islamic finance to avoid interest income.

In the past, many advisors avoided faith-based investing because clients could lose out on a substantial amount of potential income, but the gap in average gains between religious and secular funds has narrowed over time. Past concerns about the long-term reliability of religious investment funds have also faded as some funds are now over 20 years old. With these changes in mind, check in with clients who have previously expressed interest in faith-based investing but held back due to such concerns to see if it's something they'd want to pursue now.

It is noteworthy that many faith-based investors are not necessarily interested in changing corporate behavior. ESG and green investing funds aim to change corporate, governmental and societal behavior to more closely align with the values of those funds' investors. Faith-based funds seek to screen out and avoid investing in companies that operate contrary to clients' spiritual values, which is an important distinction to keep in mind when discussing investment philosophy with clients.

### **An age-neutral trend**

Generational differences are a common theme for how advisors adapt services, and they show up in faith-based investing as well. American Baby Boomers (<https://www.pewforum.org/2019/10/17/in-u-s-decline-of-christianity-continues-at-rapid-pace/>) remain overwhelmingly Christian, but they may not be aware that faith-based funds exist. These funds were started long after Baby Boomers began investing, and American society used to more explicitly embody many traditional Christian values anyway. Educate your Baby Boomer clients about these funds, and see if they would prefer to move their money where it more closely reflects their beliefs.

The decline of organized religion among Millennials is a trend that seems set to continue for some time, but Millennials who remain close to their faith are actually more likely to know about religious funds. This reflects their generational attitude that their investment portfolio is a reflection of their values and who they are as people. When devoutly religious Millennial clients walk in your door, be ready for them to suggest these funds, and be sure you know how to execute on their preferred choices.

The days of separating financial security from upholding personal values are coming to an end. To provide the best possible services to our clients, we must offer them chances to literally put their money where their mouth is and help them have the impact they want to on the world through their investments.

*\*Investing involves risk, including risk of loss. Diversification does not ensure a profit or guarantee against loss.*



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