# 4 *Reasons to Consider Socially Responsible Investing*

***By: Brian Bernatchez, CFP®***

For many years, socially responsible investing (SRI) has been considered a fringe investment strategy in the world of finance-primarily reserved for those who were willing to receive lower returns on their investments and pay higher costs in exchange for screening out companies whose products and services did not reflect their values. Tobacco, alcohol, gambling, defense and energy stocks were some of the primary companies that "Green Investors" attempted to avoid by investing primarily in a limited selection of mutual funds which screened out those companies.

Today, socially responsible investing is part of a larger movement known as sustainable and responsible investing. It has also been referred to as value based investing, ethical investing and impact investing. Regardless of what it is called, this one time fringe strategy has gone mainstream with many more choices, improved potential returns and lower potential expenses. In addition, investors have been proactive in driving up the demand for investments which don't just avoid companies whose products and services they don't like, but instead actively seek out those who have traits which match their values and beliefs. Some of those desired qualities are progressive workforce policies, a long term sustainability plan, and innovators in the production of clean energy or water. The Social Investment Forum estimates that 11% of all investments made in the U.S. – approximately $4 trillion are now made with some form of social screening. Additional proof that socially responsible investing is going mainstream permanently, and can be seen in the recent marketing campaigns by some big Wall Street firms like Merrill Lynch and Morgan Stanley touting the expertise of their research departments and financial advisers in socially screened investments.

Should you consider adding some form of social screening to your investment portfolio? Keeping in mind that investing in mutual funds involves risk, including possible loss of principal, here are 4 reasons why you might consider putting money where your heart is:

1. **Improved Performance –** During the last decade, the overall performance of socially responsible mutual funds has improved when compared to their traditional counterparts and to their target benchmarks. At our firm, the social funds we typically use for our core exposure to large company stocks have actually outperformed those we use in our client portfolios without a social screen. Many in the world of finance predict that in the future there is a good chance that this trend will continue and at the very least performance will not be a differentiator. Please keep in mind that past performance never guarantees future results.

2. **Reduced Cost –** One of the big criticisms of socially responsible investing has always been that it is much more expensive than traditional investing. Historically that has been true, as investment managers who invest with a social screen tended to have two research departments-- One for determining whether the company is a good investment and the other for deciding if they were a good corporate citizen. Although it is still slightly more expensive to invest with a social screen, the gap has narrowed significantly with many reasonably priced choices with excellent long term results now available. Some of our core holdings now have track records dating back more than 20 years. Until about 10 years ago I always let a client interested in social investing know that I thought they would likely be sacrificing a potential return, but no longer believe that to be true. As demand continues to grow, the cost is expected to continue to be competitive.

3. **Increased Selection –** During the early years of SRI there were just a handful of choices making it very difficult to build a diversified portfolio. Today, Morningstar (the leading provider of independent research on the mutual fund industry) lists over 500 social funds with choices in bonds, large and small company stocks. In addition there are more targeted choices which focus on specific themes like clean water, renewable energy, women's equality and companies which are leaders in providing a sustainable and positive workplace. Choices in foreign stocks are still somewhat limited, especially in the developing world. We are now able to build a diversified portfolio which has risk and return characteristics which generally mirror our traditional portfolios. As more and more investors show interest in SRI, Wall Street will likely stand up and take notice and add new choices to their menu.

4. **You Want to Feel Good about Your Investments –** The great recession has caused many investors to rethink the definition of a "Good" investment. Some of the products and services manufactured by Wall Street in the last decade were part of the root cause of the collapse of the financial markets. If you are considering getting in the game with a revamped portfolio which reflects your values, you should consider researching socially responsible investing further or consulting with a financial advisor who has specialized expertise in SRI.

A growing number of companies have realized that being a good corporate citizen who takes care of their workers, customers and environment can be beneficial for the shareholders and the long term value of the company! As more investors want their money to reflect their values and the information age and internet bring more transparency to the economy and financial markets, seniors may just find that being green can potentially lead to a more rewarding investing experience during the golden years.

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Brian Bernatchez, CFP® is a LPL Financial Advisor who works with Maine seniors and non-profit organizations. Brian is President and LPL Registered Principal of Golden Pond Wealth Management. He has specialized in building and managing sustainable investment portfolios for more than 20 years.
Brian can be reached at 1-800-897-1338 or brian@goldenpondwealth.com

Golden Pond Wealth Management
129 Silver Street, Waterville, ME 04901
www.goldenpondwealth.com

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31 Central Street, Suite 212, Bangor, Me 04401 • (207) 944-6888