



# What is Socially Responsible Investing?

By Mary Rinehart

**S**top—do not turn the page on this idea before you read the rest of this magazine. There are a number of misconceptions about socially responsible investing (SRI)—the main one being that you cannot make money with a strategy of SRI.

We all want to make money. But we also need to be aware of how we are making money. We've already made one major decision about how we will earn our keep as financial advisors: We joined NAPFA.

As NAPFA members, we also can make a decision about how we will invest our clients' money. Our investment strategy is potentially a value judgment that's as important as our decision to be Fee-Only. And it can be as important in building our long-term relationships with our clients.

Of course, we want our investments to be profitable, and we have all witnessed, if not endured, the recent economic failure of our financial system. The time has come to look for a new strategy, if not a new system. I believe that the strategy of incorporating environmental, social, and corporate values in the assessment of the companies in which we invest will go a long way to improving our bottom line and the world in which we live. After all, that is the *real* bottom line.

By incorporating values as part of the due diligence of our investment decisions, we can broaden the sustainable life of the companies. We want our companies to not only make money now, but also in the future; and we want those companies to be with us for many years as leading corporate citizens.

The SRI landscape is huge. So it's helpful to think of it in terms of the values that we want to be incorporated in our efforts to make money and to make a better world. SRI investors often use one (or more) of these four methods:

- **Screening-out:** An advisor can eliminate companies from portfolios that

produce goods and/or services that one considers detrimental to herself, to others, or to the world (tobacco, alcohol, pornography, etc.) These screens differ for each individual. For example, not everyone believes that alcohol is bad.

- **Screening-in:** An advisor can add companies to a portfolio that are providing goods and services that help us live more sustainable lives. For example, some clients might believe strongly in supporting "green" energy. In this case, advisors may want to find an electric company that is building a wind farm. Or a client may think that the CEO of a company has been paid an outrageous amount of money, while not producing good returns for the stockholders. The advisor would replace that investment with one in a company that is doing a better job for its shareholders and stakeholders.

- **Shareholder Participation:** Some call it activism; I prefer to call it participation. Either way, it expresses the idea that an individual or an advisor can vote proxies to express their sentiments. This simple task of voting proxies is important; it really can influence how a company is run. A shareholder is an owner of the company and needs to understand what the company does and how it does it. Shareholders vote for the board, and the board in turn hires a CEO. Unfortunately, many boards have been asleep, as we have learned in recent years. The people whom shareholders elect to the boards of public companies are important. Therefore, it is important to vote. Also, anyone who is a shareholder can support resolutions or help write resolutions to be presented at the shareholders' meeting. Many of these resolutions address environmental, social, or corporate-governance issues.

- **Community Investing:** Investors and advisors can invest money in banks and institutions that make small loans

(sometimes as little as \$25) to people around the world to help them buy houses and start businesses. These loans are made to help people help themselves. These folks usually cannot get loans from anyone else. When funds are lent through a micro-finance firm, the lender is paid a moderate, but fair, rate of interest. Amazingly, few defaults occur on these loans.

In order to expedite implementation of an SRI strategy, an advisor can use no-load mutual funds that make SRI a part of their parameters for picking stocks. The advisor also can overlay acceptable stocks that meet a client's value criteria, while staying within the financial parameters that the advisor has set for investing. It is important that the advisor's criteria for making profitable and safe investments does not get forgotten in the effort to make SRI investments.

We (the world) have had a wake-up call. Our economic system, based on making as much money as possible regardless of how it's made (in some circles called "greed"), is over. A new system of managing successful companies is beginning to unfold. To be successful in the 21st century, corporations will need to be responsible to not only their shareholders, but also to their customers, their employees, and the earth.

Fee-Only advisors can be a part of this new investment world by seeking and investing in world-class corporations that take their responsibility as corporate citizens to a higher level. Greed only benefits a few.

Join me in studying, researching, and investing for an exciting and profitable future. NA

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