Ethical Investing Making News

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The idea of investing with your values has long been derided by the traditional investment community. Their reasoning is that it limits one's investment universe and opportunities, and they don't believe that it is the place of an ordinary shareholder to be meddling in the affairs of corporations. Well, I consider myself a contrarian to the Wall Street conventional wisdom machine and do not buy into that way of thinking.

During the financial upheaval, we have seen the numbers play out. The Social Investment Forum, an association focused on responsible investing, recently issued a report detailing performance numbers of values-based investment managers. The report reviewed 160 socially responsible investments from 22 different managers, and it found that 65 percent of those managers outperformed their benchmarks in 2009.

In addition, a majority of the large cap investments reviewed also outperformed the S&P 500 index over three years and over 10 years. "This analysis underscores the reality that socially responsible investments offer what are genuinely competitive returns," said Cheryl Smith, chairman of the board at the Social Investment Forum.

Having been involved in responsible investing for some time now, this does not come as a surprise to me. The concept of analyzing companies based on more than their financials is just plain common sense. The qualitative aspect is just as important.

The due diligence that goes into a responsible portfolio includes aspects such as environmental impact. Is the company a polluter, and if so, are they actively working to reduce their footprint? Do they manufacture products that promote energy efficiency or renewable energy? Many of these companies see the tremendous opportunities in finding solutions to climate change.

But the analysis is much more than environmental. For example, managers take a close look at corporate governance, transparency and business practices. Many of the companies that caused the financial meltdown exercised no restraint, had poor governances practices and little transparency. "In the wake of the financial crisis more and more consumers are concerned about runaway executive pay practices and other forms of corporate misconduct and sustainability risks," says Lisa Woll, CEO, Social Investment Forum. The extra due diligence involved in responsible investing helps to mitigate this risk.

All investing involves risk, it's the nature of the beast. However, I believe that investment managers who take an active role in not only researching companies, but also engaging them to better their practices just makes sense. This report backs up that belief.

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