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# Socially Responsible Investing: What You Need To Know

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**Michael Chamberlain, CFP, AIF, Contributor**

**21**  
DAYS

Individuals everywhere are concerned about our country, the world, its people and the environment. For these and other reasons, more people are investing their money to get back more than just a monetary return on their investment. Many are investing to make a positive impact in our country and around the world as well as to feel that societal concerns should be made an important part of their investment focus.



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1- Investment in companies and governments that the investor believes best hold to values of importance to the investor. These include the environment, consumer protection, religious beliefs, employees' rights as well as human rights, among others. These areas of concern can be summarized as "Environmental, Social and Governance" and is referred to as ESG investing. In addition, SRI includes shareholder advocacy and community investing.

2- Shareholder advocacy is exactly what it would seem; socially responsible investors proactively influencing corporate decisions that could otherwise have a large detrimental impact on society. The various goals of shareholder advocacy is to pressure those entities into improving practices and policies and acting as a good corporate citizen, while at the same time promoting long-term value and financial performance. The goals are accomplished through various means including dialogue, filing resolutions for shareholders' vote, educating the public and attracting media attention to the issue, which generally garners support and puts additional pressure on the corporation to do the socially responsible thing

3- Community investing has become the fastest growing segment within SRI, with some \$61.4 billion in managed assets. With community investing, investors' capital is directed to those communities, in the U.S. and abroad, which are under served by more traditional financial lending



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institutions and gives recipients of low-interest loans access to not just investment capital and income but provides valuable community services that include healthcare, housing, education and child care.

## **How is Socially Responsible Investing applied to investing?**

The SRI approach is to invest in stocks and bonds from those companies and counties or municipalities that promote certain actions or eschew those, which participate in offending actions. It is not unlike the carrot and the stick premise; you reward those that you agree with by investing in their companies (the carrot) and avoid buying shares of those companies that offend your core values (the stick).

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There are three general methods of screening an individual

company for inclusion into an SRI fund; the Negative Screen, the Positive Screen and the Restricted Screen. A Negative Screen, for example, could be a fund manager's conscious decision not to invest in a company that has any involvement within a particular sector, such as tobacco. Other SRI investments might seek out and invest only in those companies which are involved in activities that promote say "green living," such as wind or solar power; those types of investment are then referred to as a "Positive Screen."

Because many corporations tend to become highly diversified as they grow, SRI fund managers make use of a "Restricted Screen" type of filtration. In that way, though a small part of the corporation's activities may be in a less than desirable sector because the amount is so small relative to the rest of the company's holdings the SRI investment in the corporation would be permitted.

### **Socially Responsible Investing is Big Time!**

Over the last two years, SRI investing has grown by more than 22% to \$3.74 trillion in total managed assets, suggesting that investors are investing with their heart, as well as their head. In fact, about \$1 of every \$9 under professional management in the U.S. can be classified as an SRI investment.

### **Socially Responsible Investing investment options**

When the time comes to invest you will find that you have several options. Traditionally, mutual funds have been the

most common way to invest in SRI. Fund companies such as Parnassus, GuideStone Funds, and Calvert are some of the largest. Exchange Traded Funds or ETF's have recently come out in the SRI format. [Powershares](#) and [iShares](#) both have several offerings.

Tom Nowack, CFP® is the author of the recently published book "[Low Fee Socially Responsible Investing](#)" which describes how to buy individual stocks using the SRI approach. For those investors with larger amounts to invest, Separately Managed Accounts may be an option.

## **How to get started with Socially Responsible Investing**

If you are interested in ESG or Socially Responsible Investing, take some time to research the concepts online or read some books such as "[The Complete Idiot's Guide to Socially Responsible Investing](#)" "[Socially Responsible Investing for Dummies](#)". If you are looking for professional advice, you may wish to use the services of a fee-only advisor where there are no commissions when you acquire the investments.

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