Aligning Your Investments with Your Values

Many clients these days are asking to either include or exclude certain investments in their portfolios. These kinds of requests can range from excluding: fossil fuel stocks, weapons, and/or "sin" stocks (alcohol, tobacco, gambling). Or they can request inclusion of stocks that promote renewable energy, diversity in management and hiring, promotion of minority rights and social justice causes. The general term for this kind of investing is Environmental, Social and Governance Investing or "ESG" for short.

The roots of this approach to investing goes back several decades when it was called Socially Responsible Investing (SRI). It was a niche investing philosophy favored by some religious groups that wanted to align their investments with their religious beliefs. It gained more momentum during the South African Apartheid period when investors demanded divesting shares of companies that did business with the South African government. Could ESG investing be the right approach for you?

In the past there had been concerns about the performance of ESG investments, but more recent data indicates that ESG investing does as well as non-ESG considered investing. Morningstar tracks 56 ESG screens in its proprietary portfolios. In their report, "ESG Portfolio Performance Analyzed" by Dan Lefkovitz dated, March 12, 2019 they indicated "that 41 of the 56 Morningstar's ESG indexes outperformed their non-ESG equivalents (73%) since inception."

When you think about it, it makes sense. Mr. Lefkovitz goes on to say, companies that are concerned about the planet look to the future and maintain systems that avoid environmental damage, that saves costs and improves the balance sheet. Companies that put employee treatment as a priority attract better and more talented workers. Diverse companies also attract the best and brightest talent and they make better decisions for the company, their shareholders, and the world we live in. Rather than putting the focus on quarterly results they are more focused on the long term good of the company. Studies by the IMF, the Interfaith Center on Corporate Responsibility (ICCR), Deloitte find similar results.

How do you get involved with ESG investing? There is no need to restructure your entire portfolio, the odds are you probably already have some of these highly thought of companies in your portfolio. But you may also own some that are not. First, we can look at your portfolio and help you find funds or stocks that have higher ESG ratings that what you might already own. Many of the fund families we use have funds which have put their bonds and stocks through ESG screens. Finally, you might want to consider reallocating your IRA to an ESG allocation rather than your taxable account to keep the tax consequences of buying and selling to a minimum.

The bottom line is ESG investing could be a winning strategy in three ways: it is good for the company, good for the investor, and good for the planet!

Please consider the investment objectives, risks, charges, and expenses carefully before investing. Some investments are not suitable for all investors, and there is no guarantee that any investing goal will be met. Past performance is no guarantee of future results.

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