Author Sandi Weaver on a Sierra Club hiking trip in Oregon. Photo provided

PERSONAL FINANCE

Find the tools to invest based on your values

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In view of the tragic school shooting incident in Florida, many are asking if it’s possible to invest based on their values.

Some investors have long disdained making money from tobacco, gambling, alcohol, weapons manufacturing, nuclear power, adult entertainment or various combinations thereof.

How hard is it to find investments that invest in services and industries that avoid negative impacts on our society and the environment? If those investments are available, can you make a sufficient rate of return investing that way?

Let’s take a look.

I'm going to assume we want to select a mutual fund or exchange-traded fund that invests in large U.S. companies. This may be one investment of several which you use to construct a portfolio with the risk level that you deem appropriate. Most diversified portfolios also invest in small companies, in the U.S. and internationally, in stocks and in bonds, and possibly other options you believe are appropriate.

At my firm, we purchase professional Morningstar research for investments. Morningstar is a Chicago company that provides independent investment research for do-it-yourself investors and extensive research for professionals. You can access their research online or via paper; libraries often subscribe. Some of it is free and much of what we're covering here is openly available to all.

You may find other research at Lipper or at a brokerage firm that can assist you in identifying socially-responsible investments.

When I query for mutual funds with a 10-year track record that invest in large U.S. companies, the resulting list shows 2,224 options. When I query for mutual funds with a 10-year record that invest based on socially responsible factors, then the list narrows to 91. That's a sufficient dataset, but beware there are funds with multiple classes.

For example, American Funds has a socially responsible fund, Washington Mutual, with eight different classes. As a do-it-yourself investor, you will likely only have access to one or two of these — depending on how much money you're investing — and your retail classes often charge higher fees than classes used by professionals.

Once I screen the list for discrete fund choices, we're left with 42 different funds.

Some of these funds invest for good valuations, some invest for higher growth, some invest for a blend. You'll want to decide which is best for you. Some of these funds rank high based on performance; some rank poorly.

Morningstar calculates a datum "return rank in category over 10 years" which gives an indication of how well each fund performs against its peers in the same category. We'll want to avoid funds with poor performance.

Of these 42 funds, let's pull up the fund in the #1 (best) spot, a Parnassus fund. That's an automatic winner, right? Well, not so fast. If you dig deeper, you'll see Morningstar's analysts are only rating it as neutral. Why aren't they more sanguine? The manager of this fund is 73 and succession plans aren't a sure thing. Plus, the fund charges close to 1 percent in annual fees, which is average but no bargain.

Our Morningstar research was enhanced in 2016 to include a sustainability rating on funds, reflecting the degree of positive socially responsible factors of the companies used inside the fund.

As an example, the Vanguard FTSE Social Index Investor class only ranks 19th in rate of return over 10 years, but its sustainability rating is 11 (1 is best.). It has a sustainability mandate by prospectus (*i.e.*, it cannot easily waver from that goal without approval by its board of directors.)

These are examples of why you'll want to employ your usual evaluation process on all 42 funds to see which is suitable for your money.

Can you find investments that invest on a socially-responsible basis? Yes, the research is there.

Can you make a competitive rate of return on your investments with those? Yes, the research shows that is so.

Investors are now better able to put their money where their values are.

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