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## Put your money where your heart is

By STEVEN CHURCH / The News Journal  
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The average 401(k) investor may not realize it, but nowadays there is a liberal way and a conservative way to buy stocks. Financial advisers have started using the well-worn political labels to make a distinction between two general types of morally conscious investors: liberals who avoid tobacco, guns and oil stocks, and conservatives who avoid companies that make medical instruments for abortions or have gay-friendly policies.

The labels are a recent addition to the field of socially responsible investing, in which investors try to balance moral values with the bottom line.

The earliest mutual funds to use the so-called SRI philosophy got their start in the 1970s and tended to screen out companies based on their environmental records or how they treated workers in other countries.

Those issues continue to dominate the SRI community, but the last several years have seen the addition of funds that cater to investors with conservative religious beliefs, such as Ave Maria Mutual Funds, which screens out companies that violate conservative Catholic values.

"I call our fund the morally responsible fund," said George P. Schwartz, president of Ave Maria Mutual Funds of Bloomfield Hills, Mich. The fund has only four limits: no companies involved in abortion, no companies that donate to Planned Parenthood, no companies that provide health insurance to gay or unmarried couples and no companies that sell pornography.

The vast majority of investors in the fund are conservative Catholics, Schwartz said.

Newark residents Marlene Dick and her husband, Bill Ebling, are on the other end of the religious spectrum. Their moral values lead them to avoid tobacco stocks, oil companies and defense contractors.

"What you do with your investments, whether you are aware of it or not, is confirming or voting for a particular philosophy or position," said Ebling, who prefers to call himself progressive, not liberal.

Many of the members of their Unitarian Universalist church in Newark look for socially responsible investments, Dick said.

"There are a lot of people there with the same philosophy," she said.

Investors who are uncomfortable with the tactics or policies of certain companies are reflecting a broader concern among consumers, said Jennifer Gregan-Paxton, a professor in the University of Delaware's Department of Business Administration.

In the last several years, for example, a growing number of consumers have begun to buy products based partly on whether they think the company product reflects their values, she said. For instance, some consumers only buy coffee from companies that treat growers fairly, or avoid tuna because they oppose fishing practices that endanger dolphins.

Investors who select mutual funds, or individual stocks, based on moral values and rate of return are trying to line up their bank accounts with their personal beliefs, said Gregan-Paxton, who teaches a course about the ethical responsibilities of businesses in a community.

"It is part of their identity," she said. "They consider themselves environmentalists or devoutly religious, and they are trying to make sure that all of their actions are consistent with that."

But what is the effect on their investments?

"The jury is still out on that question," said Charles Elson, a University of Delaware business professor and an expert in corporate governance.

The 10 SRI mutual funds with the highest rate of growth over the last five years in the large blend category were outperformed by their 10 traditional counterparts, according to Morningstar Inc. of Chicago. The 10 SRI funds averaged a rate of return of just under 3 percent, while the 10 traditional funds' rate of return averaged 12 percent.

However, that comparison doesn't tell the whole story, said Morningstar analyst Bill Rocco. That is because there are thousands of traditional mutual funds competing with fewer than 100 SRI funds. Some of the best-known SRI funds, like the small-value Ariel fund, averaged 21 percent growth over the last five years.

Elson also noted that it can be impossible to tell whether a socially responsible fund is doing poorly because of its moral filters or because it is poorly managed.

Many economists argue that excluding certain companies from a portfolio will, in the long run, cause a fund to bring in less money than a competitor that considers only the bottom line. That theory is challenged by SRI proponents who argue that, in the real world, moral choices often give an investor an advantage. Companies that have bad environmental records can be sued, while companies with dangerous products like cigarettes can be forced to pay billions to compensate consumers. The key to socially conscience investing, as with any investing strategy, is balance, said Paul Baumbach, senior wealth manager for Mallard Advisors LLC in Newark.

Don't start planning your investment strategy based solely on socially responsible investing, Baumbach said. First, talk to an adviser about your financial goals, he said. Once you have a broad outline of a plan, then work out the details using SRI principles.

"Make sure you don't put the cart before the horse," he said.

That could mean mixing some socially responsible mutual funds with traditional investments, he said.

Many socially conscience mutual funds tend to have a high level of technology companies in their portfolios, which are considered more friendly to the environment than some energy companies, said Rocco. When the Internet bubble burst in 2000, however, some SRI funds were hit harder than the rest of the market, he said.

In the end, picking a socially responsible mutual fund is a lot like picking any other mutual fund, experts said. Their performance should be measured just like any other fund: by looking at the rate of return.

"If you want a good one, there are a lot of them out there," Rocco said. "But you have to find them."

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### COMPARING PERFORMANCE

The investment research company Morningstar Inc. produced this list comparing the performance of 10 large-blend mutual funds that follow a socially responsible investment model with 10 similar funds that don't use such a model. The companies chosen were the top performers over the past five years. Because there are many more traditional funds from which to choose, the top performers in that category have higher rates of return than socially responsible funds.

#### TOP TEN SOCIALLY RESPONSIBLE INVESTMENT FUNDS

Name	Ticker	1 Yr.	3 Yr.	Ann.	5 Yr.	Ann.
Neuberger Berman Socially Resp Inv	NBSRX	13.39	9.26		7.3	
Parnassus Equity Income	PRBLX	7.2	6.03		7.27	
Women's Equity	FEMMX	8.85	4.09		4.71	
Walden Social Equity	WSEFX	8.08	4.67		4.6	
Calvert Social Investment Equity A	CSIEX	7.29	3.02		4.23	



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### WHAT TO CONSIDER

Before picking a socially responsible investment fund, there are a few things to consider, said Paul Baumbach, senior wealth manager with Mallard Advisors LLC in Newark.

- Decide how much emphasis you want to place on socially responsible investing, compared with other financial goals.

- Look at as many different SRI funds as possible. Many emphasize different social or religious goals. Pick those whose philosophy you share.

- Compare fees and other costs associated with an SRI fund with a traditional counterpart.

- As with traditional mutual funds, look for those that have been under the same manager for several years and have beaten their peers consistently.

### SOME SOCIALLY RESPONSIBLE FUNDS

#### Ariel Fund

Does not invest in corporations whose primary source of revenue comes from tobacco products, nuclear energy or handguns.

#### Pax World Fund

Does not invest in companies involved in defense or weapons-related products, or companies which derive revenue from tobacco, liquor or

MFS Union Standard Equity I	MUSEX	14.88	4.3	0.81
Smith Barney Social Awareness B	SESIX	3.87	3.16	0.73
Calvert Social Investment Enhan Eq A	CMIFX	6.8	3.26	0.07
TIAA-CREF Instl Social Choice Equity	TISCX	8.99	4.04	-0.17
Catholic Equity A	CTHGX	9.13	2.37	-0.2
<b>Average</b>		<b>8.85</b>	<b>4.42</b>	<b>2.93</b>

## TOP TEN TRADITIONAL MUTUAL FUNDS

<b>Name</b>	Ticker	1 Yr.	3 Yr.	Ann.	5 Yr.	Ann.
Century Shares Trust	CENSX	6.03	5.6	16.27		
Mairs & Power Growth	MPGFX	13.42	8.33	15.69		
FMC Select	F0000V	8.77	7.05	13.63		
AmSouth Select Equity A	ASECX	5.17	6.99	13.14		
Thompson Plumb Growth	THPGX	1.17	1.74	12.42		
AllianceBernstein Focused Growth & Inc A	ADGAX	7.26	5.69	10.8		
Wisdom Instl	WSDIX	6.93	6.56	10.37		
Rydex Consumer Products Inv	RYCIX	8.88	8.43	10.08		
Morgan Stanley Equally-Wtd S&P 500 B	VADBX	12.41	7.63	9.4		
Tocqueville	TOCQX	16.38	10.11	9.17		
<b>Average</b>		<b>8.64</b>	<b>6.81</b>	<b>12.1</b>		

Source: Morningstar Inc.

gambling.

**Ave Maria Mutual Funds**

Does not invest in companies connected with abortion or pornography, or which offer unmarried gay or straight couples employee benefits.

**Amana Funds**

Invests according to Islamic principles, which means it avoids interest and investments in businesses involving liquor, pornography, gambling and banks. It also avoids bonds and other fixed-income securities.