

# Should Your Portfolio Have a Conscience?



**Socially responsible investing has been around at least since the 1960s, but it seems to be getting more attention lately. Perhaps it's because there are more social issues affecting us, or because people are becoming more aware of such issues.**

For example, in 2005 there were nearly four times as many socially screened mutual funds in the investment marketplace as there were a decade earlier.<sup>1</sup> Today, almost one out of every ten dollars under professional management has been allocated according to socially responsible criteria.<sup>2</sup>

If you believe it is important that your investments be directed toward favored causes, or away from organizations and/or practices you disapprove of, that's great. However, it is also important that you not allow this desire to outweigh the other factors that must be considered when making investment decisions.

## Do You Feel It?

When choosing investments based on your beliefs about certain social issues, it's important not to let your feelings play an overriding role in decision making. Research suggests that emotion tends to have a detrimental effect on investment decisions.<sup>3</sup>

For example, let's assume that you are concerned about pollution and decide to consider mutual funds that invest in companies that develop cleaner products and services. This decision may make you feel good, but there are other factors to consider when deciding which fund to buy.

*Does the fund invest in stocks or bonds? A mutual fund that does not fit into your asset allocation strategy could interrupt your progress toward financial goals.*

*Are the fund's investment objectives too risky (or too conservative) for someone with your time horizon and risk tolerance? Your comfort level with risk and the number of years until you need the money you are investing should tell you more about whether the fund is appropriate than the –companies the fund owns. The value of mutual funds will fluctuate with market*

## Trend Conscious

**Socially screened mutual funds, which invest in companies that meet certain socially sensitive criteria and/or screen out companies that do not, have become popular since 1995.**

Number of funds



conditions. Shares, when sold, may be worth more or less than their original cost.



Source: Social Investment Forum, 2006

This doesn't mean you should ignore your beliefs when selecting investments.

However, investments that satisfy your conscience should also fit with your long-term goals and needs.

*Mutual funds are sold only by prospectus. Please consider the investment objectives, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other information about the investment company, can be obtained from your financial professional. Be sure to read the prospectus carefully before deciding whether to invest.*

1-2) Social Investment Forum, 2007

3) Stanford Graduate School of Business, 2005

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