Investing in Your Values

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You're likely aware of how specific investments in your portfolio relate to your overall financial goals. But did you know that your investments can also reflect your personal values?

Socially responsible investing (SRI) offers an array of options designed to help you do good for society—and for your portfolio. Just as public consciousness of social issues has grown in recent years, the popularity of SRI has increased dramatically. In fact, the Social Investment Forum's *2007 Report on Socially Responsible Investing Trends in the United States* revealed that, of the $25.1 trillion in U.S. investments, socially responsible investments made up $2.7 trillion, or almost 11 percent.

Making your money make a difference

The idea behind SRI—also called environmental, social, and governance (ESG) investing—is to help investors pursue their financial goals while promoting societal well-being. By choosing a socially responsible investment vehicle, you are essentially funding companies that support causes you care about, companies that don't engage in practices that run contrary to your values, or both.

For example, you might choose to invest in companies that promote:

- Environmental protection
- Community development
- Workplace diversity
- Human rights

On the other hand, you might decide to avoid investing in companies involved in:

- Alcohol, tobacco, and gambling
- Weapons
- Nuclear power
- Animal testing

The investment managers who create and oversee SRI portfolios evaluate companies according to specific values-based criteria, or "social screens." As an investor, you can evaluate an SRI investment vehicle based on its objectives and the social screens it employs.

SRI features

SRI's most compelling feature is obvious: the ability to put your money to work for causes in a way that may also result in personal financial gain. You already know that you need to invest; SRI lets you take a social stand through the particular investment vehicles you choose. Shareholders of socially responsible companies can use their ownership rights to communicate with corporate management—through proposals, meetings, and proxy voting—in an effort to influence policies and decisions. Through this type of shareholder activism, SRI portfolios allow

single investors to exert more influence than they typically could with other investments, such as individual securities.

Creating a socially responsible portfolio

Asset allocation is the cornerstone of any investment plan, including a socially responsible one. Before you decide to work SRI into your portfolio, it's important to consider its shortcomings, notably in the emerging markets asset class. Emerging markets investments are focused in developing countries, where many companies don't meet SRI criteria.

The challenges of diversifying, however, shouldn't deter you from pursuing SRI. To ensure that your portfolio is balanced, a good strategy might be to select only one—or a few—investments that adhere to strict SRI criteria. As always, it's wise to refrain from putting all your eggs in one basket, even if it's a socially responsible basket.

Is SRI right for you?

There are many ways to support social causes without involving your investments. Whether or not you choose to extend your beliefs to your finances should depend on your personal situation and investment goals. As the SRI space evolves, investors will have an increasing number of options to consider. A financial professional can explain the benefits and drawbacks of SRI and help you make a smart decision—one that's in keeping with both your personal values and your long-term financial goals.

Investing in the stock market involves gains and losses and may not be suitable for all investors. The investment's socially responsible focus may limit the investment options available to the investment and may result in lower returns than returns of investments not subject to such investment considerations. Diversification does not assure a profit or protect against losses in declining markets, and diversification cannot guarantee that any objective or goal will be achieved. Emerging market investments involve higher risks than investments from developed countries and also involve increased risks due to differences in accounting methods, foreign taxation, political instability, and currency fluctuation.

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