

Socially Responsible Mutual Funds

How would you like to make a superior return on your money... and improve the world at the same time?

What if you could use your investment dollars to clean up polluted rivers... bring renewable energy technology to the masses... save the rainforests... revitalize the inner cities... *and still make thousands, even millions of dollars?*

It sounds attractive, doesn't it? And if you listen to the advocates of Socially Responsible Mutual Funds, they'll tell you it's possible – by investing in their funds, of course.

Unfortunately, it doesn't work that way.

By definition, the goal of *investing* is to make money. The goal of *socially responsible investing* is to do something socially responsible, and make money. But here's the problem...

1. Socially Responsible Mutual Funds have shown that they are not the most profitable investments. As you'll soon learn, the vast majority have performed worse than the market indices year-in and year-out.
2. Contrary to their advertising, you are not doing anything “socially responsible” by investing in Socially Responsible Mutual Funds.

What the Advocates of Socially Responsible Investing Won't Tell You

As the story goes... by investing in a Socially Responsible Mutual Fund, you are doing your part to protect the environment or improve the world by funding the efforts of companies that are socially responsible.

This is not true.

Whether you buy a stock directly through your broker or through the shares of a mutual fund, your money does NOT go to the company you are investing in. Instead, your money is exchanged for shares that were held by another stockholder. It is the stockholders on the other side of the transaction that receive your investment... not the company.

There are generally two situations where a company would receive money directly from an investor. One example would be a private company that issues shares directly to a stockholder. The other would be an Initial Public Offering (IPO), when a company first begins trading on the public markets. If you have the opportunity to invest in either of these situations – and the company is a “socially responsible” one – then your investment may very well go to a cause that you believe in.

Excluding these circumstances, you are not doing anything socially responsible by investing in a Socially Responsible Mutual Fund. The only way that you *could* be doing something socially responsible is if the mutual fund company itself donates a percentage of their fees to a worthy cause.

So, I put this issue to the test. I went to the websites of five top Socially Responsible Mutual Funds and searched for any mention of charitable giving. While many will tell you they advocate social change, most don't say a word about their charitable giving. But let's say that I'm mistaken... and that they do contribute a healthy portion of their profits to socially responsible causes.

Let's assume that the mutual fund you're investing in donates 10% of the fees they collect. And let's assume that company collects 2% per year on the funds under management. If you have \$100,000 invested, your fees will be \$2,000. This means that the company would donate \$200 on the \$100,000 you have invested.

There are better ways to improve the world than investing \$100,000 for only \$200 of it to go to a worthy cause. And remember, I couldn't find anywhere on their websites where they even discussed their own charitable giving. Perhaps these companies feel that all they have to do to improve the world is to buy the stocks of companies that are doing so.

Investing 101: Back to the Basics

But let's forget the "socially responsible" part for a minute, and focus on "investing." It bears repeating... the goal of *investing* is to make money. And if you share that goal, you're better off staying away from Socially Responsible Mutual Funds.

To prove my point, I compared the performances of 41 Equity Large Cap SRMF's over the last three years with the performance of the S&P 500 over the same period. A period that has experienced both bear markets and bull markets.

Here are the results: Less than 25% of the funds outperformed the market, and only by a slight margin. The results were almost identical when I compared the Mid-Small Cap SRMF's to the S&P 400 – less than 28% of the funds slightly outperformed the market.¹

This is clearly a level of performance well beneath the returns you've come to expect as a member of *The Oxford Club*.

The End of the Line for Socially Responsible Mutual Funds

Regardless of how good it makes you feel, you are not being socially responsible by investing in Socially Responsible Mutual Funds. Because the money you invest does not go to the coffers of the companies you are investing in.

Along the same line of thinking, you're not destroying the environment by investing in Exxon... you're not adding to the healthcare crisis by investing in Phillip Morris... and

you're not tearing apart the fabric of society by investing in liquor and casinos. You are simply paying another investor for his shares.

However, if the past is any indication, you'll actually MAKE some money by investing in oil, sin and vice... but that's another argument for another day.

This is not to say that socially responsible companies cannot be GREAT investments. They can be some of the most lucrative investments you'll ever make. Rich financial rewards will come to the companies that invent alternative building materials... that develop more efficient technology to turn saltwater into freshwater... that develop new sources of energy... and find ways to turn waste products into dollars.

Our world desperately needs this kind of innovation, and you should seek out these companies for your portfolio.

But if you want to be socially responsible with your money, then be socially responsible with your money. Take your *profitable* investments... cash out some of your profits... and donate them to a cause you believe in. Don't invest in Socially Responsible Mutual Funds.

Good Investing,

Scott McDougal

¹ <http://www.socialinvest.org/areas/sriguide/mfpc.cfm>