



Making Money Greener

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If you own stocks, especially shares of a mutual fund, it's time to take a closer look at your investments.

For example, shareholders in Fidelity Magellan -- one of the largest stock funds in the world -- own shares of General Electric, Citigroup, Exxon Mobil, and a slew of other companies that have appalling stances on human rights, labor, and the environment, not to mention ties with terrorism. It's hardly the place for progressives to sock away money for retirement.

But that's the bind with mutual funds: they make it easy to own stock, but harder to invest wisely.

Fortunately, a viable investment alternative already exists. Socially responsible investing (SRI) offers progressives the opportunity to harmonize financial interests with their own personal values. SRI firms like Calvert and Domini act on shareholders' behalf to advocate responsible corporate practices. And the budding Bay Area firm Invested Interests recently took that idea a step further by launching a free screening tool that allows potential investors to pick and choose which social and ethical values to look for. Now, for the first time, individuals can set their own social and environmentally-conscious criteria for investments.

The public demand for SRI is at an all-time high. By Invested Interests' estimates, over \$2 trillion (roughly one out of every nine dollars invested) in investments are already screened, as compared to only eight years ago, when screened investments totaled \$529 billion. This recent rise in screened investments is all the more remarkable, considering the SRI movement began forty years ago based on religious principles.

In the 18th century, John Wesley, a founder of the Methodist Church, preached the

fundamental tenets of SRI in a sermon called "The Use of Money." Wesley believed businesses should avoid practices that harm their neighbors, including what we would now deem environmentally-destructive practices. Convictions like these are shared among many other religious groups, including Quakers.

It was not until the Vietnam War era, however, that modern SRI really began. When it was revealed that Dow Chemical was profiting from the war by manufacturing napalm, public outrage surged. Later disasters like Union Carbide's [Bhopal explosion](#) and the [Exxon Valdez](#) oil spill, as well as social and political concerns about apartheid, spurred further interest in SRI. In the case of apartheid, public indignation compelled U.S. businesses to divest investments from companies operating in South Africa, which helped spur the end of racial segregation there.

SRI Across the Spectrum

Since SRI got its start as a religious doctrine, it should come as no surprise that just as there are liberal, ethical SRI funds like Calvert and Domini, more conservative funds -- such as Aquinas and Lutheran Brotherhood -- focus on religious criteria for investing. Julie Fox Gorte, Vice President and Chief Social Investment Strategist at Calvert, said, "SRI comes in many flavors, just as investing as a whole does. All of them appeal to some investor, and the variety is all good for investors, who are all better off if they have more choices."

According to [Social Investment Forum](#), there are currently over 100 SRI funds. Of those, only a small portion follow religion-based investment principles. Since there is no single SRI standard, SRI funds vary widely on socially-conscious agendas. For example, Aquinas Funds consider abortion a key investment issue.

To that end, this religious fund family has principal holdings in Freddie Mac, Sara Lee, and Sunoco -- corporations that have either taken a stance against abortion or are publicly neutral on that issue. Other religious funds have made tobacco, alcohol, gambling, and adult entertainment key criteria for investing. Conversely, a more progressive set of funds like [Sierra Club](#) puts a greater emphasis on issues like environmental pollution and weapons manufacturing.

The chief problem with SRI, however, is its lack of a broad-sweeping standard of responsibility. Paul Hawken, the director of the [Natural Capital Institute](#), recently pointed out that an SRI fund like Pax can call itself progressive, because none of its top ten holdings have poor environmental practices. But the Pax World Balanced

Fund owns a smaller amount of shares of companies like Johnson & Johnson and Gillette, which have spottier environmental records.

Likewise, a fund can claim to be socially responsible because its holdings are good on human rights -- even if they're horrible when it comes to defense contracting. The trick for socially-concerned investors, then, is to research all of a fund's holdings and gain a better understanding of their corporate practices before deciding which criteria matter most.

The 'American Apparel' of SRI

Invested Interests, which is owned and operated by Brandon Small, has attempted a non-partisan approach to disseminating SRI information. Small likens Invested Interests -- and SRI in general -- to American Apparel, a company that prides itself on manufacturing sweatshop-free clothing; as opposed to the Gap, which has long been criticized for its labor practices. "We're taking a new approach to SRI that encompasses young investors," Small said. "We want to present SRI in a pragmatic and fresh way."

Invested Interests has developed an extensive database that allows the public to explore every company in scores of mutual funds. (Most other financial firms only allow you to research a fund's principal holdings.) Users can set up screens that range from abortion to animal testing to the environment, in order to see exactly where a company stands on the issues that matter most to the individual investor. "Ninety percent of investors own mutual funds," Small said, "and this comprehensive research tool is geared toward average investors."

The data Invested Interests has made available for free as part of its screening tool is actually gathered by a select group of companies like the [Investor Responsibility Research Center](#), which analyzes reports and discusses corporate practices with various rights groups. The IRRC ranks companies and sells their information to financial advisors and shareholders -- but at hefty rates.

According to Small, Invested Interests created its research tool because "it doesn't make sense for a client to buy \$20,000 worth of information ... people have a lot of interest in SRI issues, but can't afford advisors." Plus, even if you opt for Calvert or one of the other SRI firms, you have to rely on their screens -- not your own.

In response to the notable lack of flexibility in what is, in many ways, a unique and

individual process, Invested Interests makes this corporate data available to the public on their website at no charge. Users can research socially responsible funds, as well as more traditional ones, on the Invested Interests site using an array of filters including abortion, human rights, workplace practices and diversity of its board of directors. In this way, an interested investor can learn that a so-called progressive fund like Domini Social Equity actually has a lot of holdings in companies that don't have good environmental track records, though they fared better in the "ties to terrorism" screen.

Taking SRI to the Classrooms, and Beyond

Like Small, Gorte of Calvert feels strongly that SRI is becoming a primary concern for younger investors. "I do believe that awareness of social investing is growing in the U.S. and Europe, but also in many other markets, including Japan, India, Australia, New Zealand, and Brazil."

Another indicator of the strength of interest in SRI, Fox said, is the number of MBA programs embracing SRI principles in their curricula. Sandra Navalli of Columbia Business School told me that within the past five years, Columbia has seen a surge in the popularity of SRI among its students. Two classes that recently launched, "Finance and Sustainability" and "Business and Society," both focus on a triple bottom line for investors and corporations: making both groups mindful of social, environmental, and financial concerns.

These two classes are just the first wave of SRI's growing influence at the school. Navalli explained, "We've also begun to incorporate corporate social responsibility into our core curriculum across the board -- while about 25 percent of Columbia Business School's student body has volunteered interest into SRI, we want to expose all MBAs to these issues."

For business school students as well as individual investors, the future of SRI is wide open. Brandon Small says Invested Interests' next project aims to create an online community of socially conscious investors. "When a company comes up as passing or not passing a screen on our social screening tool," Small said, "we want users and consumers to be able to engage in a dialogue forum on our site with others interested in the same company and issues."

As investors increase their awareness of and demand for socially responsible practices, funds like Calvert are stepping up their responsibilities as shareholder

advocates. By leading the charge in areas like electronic waste -- a recent focus for Calvert's holdings -- individuals and investment firms are demonstrating how SRI can be taken to the next level.

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Thank You,
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