YOUR FINANCIAL PLANNER

Can you be a socially responsible investor?

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Many of us are card-carrying Sierra Club members and concerned about climate change. But when it comes to our money, few of us invest our values, although we'd like to.

We work with many clients at my firm, a few of whom have had us invest their hard-earned savings in a socially-responsible manner. They're willing to earn a lower rate of return if need be. They're willing to incur a higher risk level if need be. They're willing to save more, work longer, spend less, and more, if need be.

What's the sacrifice, if any? I'll focus on three of our clients to unearth their motives, how we invested their money and their results.

"Socially responsible investing (SRI) — also known as sustainable, socially conscious, "green" or ethical investing — is any investment strategy which seeks to consider both financial return and social good to bring about a social change," according to Wikipedia.

JOHN AND JILL

John and Jill (names changed for confidentiality) used socially responsible investing (SRI) for Jill's portion of their investment portfolio from the first day they hired us in 2003. John, a lawyer with his own practice, is about 10 years older than Jill, is recently retired and for many years funded his own SEP retirement plan.

Jill is a nurse practitioner and has insisted that her investments be socially responsible whenever possible. She has adamantly told us, "Why would I want to support corporations that kill people when I'm spending my life trying to save them?"

Jill's definition of SRI is very restrictive, compared to others.

Their portfolio is 50 percent SRI mutual funds and ETFs. When few SRI choices are available, John allows us to use his accounts to balance the portfolio with non-SRI investments to get the diversification we need.

We have far more SRI choices now than we did 14 years ago when we first configured their portfolio. We use funds and ETFs from the Amana, Calvert, Neuberger Berman, Parnassus, Pax and PIMCO mutual fund families now, but have used funds from Ariel and Aquinas fund families in the past.

DO YOU LOSE MONEY?

What's the result? Back in 2005, we measured the rate of return on the non-SRI investments, 8.3 percent, against that of the SRI funds, 5.5 percent. That relationship has probably narrowed significantly since.

When we compare John and Jill's portfolio, with its 50 percent SRI funds, to that of Dana's (name changed) portfolio with all non-SRI funds, the 10-year average annual performance comes within .3 of 1 percent so there's little sacrifice of long-term return. However, let me footnote that asset allocation matters.

Both John and Jill maintained a moderate asset allocation throughout most of the last 10 years with about 60 percent invested in higher-risk investments such as stocks and non-traditional investments. Dana's portfolio was also configured similarly, but in recent years her portfolio has remained moderate while John and Jill have downshifted to a less aggressive 50 percent high-risk allocation.

That downshifting sacrifices some return for low-

er risk, except in bear markets.

IS IT RISKIER?

If you compare the pattern of annual returns between the two portfolios during this decade, it differs only during volatile, outlier years such as the Great Recession year of 2008 and the bounce-back years of 2009 and 2010. Hard-running bull markets in 2012 and 2013 also revealed variations, but most years had comparable returns.

Differences manifested during 2008, the Great Recession. Both portfolios swooned of course, but the SRI portfolio held ground better, dipping 17 percent less.

Over a long-term horizon, with some work, the rate of return on your SRI portfolio can be quite respectable. However, it's essential to invest smart.