

The Good and Bad of Ethical Investing

Socially responsible funds deliver decent returns. But finding one that reflects your values isn't so easy.

Should you put your money

where your heart is? Let's say you agree with Al Gore about global warming—or, on the other hand, you feel that the biggest threat to our society is the corrosion of traditional values. In either case, there are “socially responsible” (SRI) mutual funds that should steer clear of companies with businesses or policies that you would find objectionable. If these funds do their job, you never need suffer a guilty conscience about supporting activities you consider immoral, and the funds’ returns will let you do well by doing good.

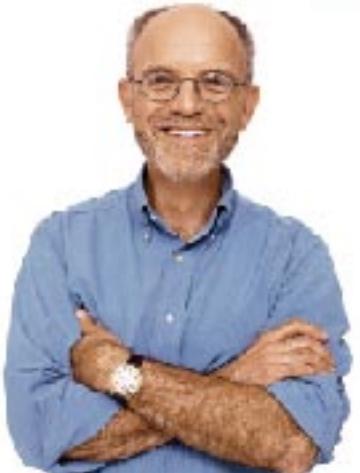
So what's not to like? Just about everything, according to the conventional wisdom, which claims that SRI funds have lousy performance, outrageous fees and even a narrow perspective on ethics. But I've taken a hard look at these funds recently, and I think much of what you've probably heard about SRI funds is misleading—including most of what I've written about them (I've parroted the conventional wisdom) and some of what the funds say about themselves.

<0.1%

AVERAGE ANNUAL DIFFERENCE IN RETURN, 1997-2007

NOTE: As of Sept. 30.
SOURCE: Morningstar.

policies. The result: Even when SRI funds invest using indexes of companies (rather than actively buying and selling stocks), creating and maintaining those indexes isn't cheap. You'll pay fees roughly 0.7 percentage points higher than those you'd pay for the average S&P 500 index fund, and over the long run



their progressive labor policies and their lack of smokestacks.) Moreover, in the past decade, which includes tech's ups and downs, righteous funds are separated from other actively managed funds by less than a tenth of a percentage point a year. In other words, investing by principle hasn't cost you much principal.

Can that continue? Maybe, but the fact is, it's expensive to research how much pollution a company produces or whether some of its goods are produced by slave labor in China. And it's even more expensive to wage a campaign to get a company to change objectionable

you can expect SRI funds to underperform by about that amount. Then again, Statman has found that investors who buy SRI funds don't really care whether they cost more. They would rather compromise on fees than on beliefs.

Moreover, if investing by your moral compass makes you more likely to stick with a fund even when it's down, you'll do better than folks who chase whatever is hot at the moment.

COOKIE-CUTTER ETHICS

There's still one area, however, where I believe SRI funds come up short. The funds don't advertise the fact, but the truth is that they take a one-size-fits-all investing approach that's straight out of the 1960s, when ideologies were rigid and technology was primitive. If you're a Prius-driving, pro-choice Obama supporter, it's not hard to find an SRI fund: **TIAA-CREF Social Choice Equity**

(ticker symbol: TICRX) or **Vanguard FTSE Social Index** (VFTSX) should work for you. Conversely, if you're an Evangelical Christian, one of the Timothy funds (timothyplan.com) could make sense. But if you're a devout Catholic environmentalist, a hard-core lefty who smokes and plays poker, or a gay Republican, you're most likely out of luck. You won't easily find an SRI fund that favors “green” companies but opposes abortion, or one that fights global warming but sees nothing wrong with “sin stocks.”

“There's not enough dialogue going back and forth between SRI firms and their investors,” says David Wieder, the former CEO of Domini Social Investments

and now a private investor. “The investment options for SRI should offer more flexibility and control.” Wieder thinks the day will come when you'll be able to create a unique, roll-your-own SRI fund that would invest according to your personal set of beliefs.

Technologically, that's not such a great leap for SRI fund companies to make. But they haven't made it yet. That leaves three choices: giving up on SRI for now,

accepting some compromises in your funds or working with an adviser who specializes in ethical investing and can customize a portfolio. You can find advisers at socialinvest.org and then do background checks at adviserinfo.sec.gov and brokercheck.finra.org. Stick to fee-only advisers, ask questions about the adviser's beliefs, and get the details of how he or she screens companies and mutual funds. This service won't come cheap, likely

1% of your invested assets a year, and many advisers have high minimums. But you can probably arrange a short-term consultation for \$2,000 or so. That's a price you'll have to pay until the ethical fund industry finally recognizes just how complicated you really are. **\$**

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Money 70 OUR LIST OF RECOMMENDED MUTUAL FUNDS AND ETFs

MONEY 70 stock funds were beaten down in the month ended Nov. 15 by continuing concerns over the slumping housing market and the credit crisis. The hardest-hit funds: **Bridgeway Small Cap Value** dropped 10.7%, while **Muhlenkamp** and **Primecap Odyssey Aggressive Growth** both fell more than 9%. Most bond funds registered healthy gains, with **T. Rowe Price International Bond** and **Vanguard Inflation-Protected Securities** returning 3.2%.

FUND (TICKER)	TOTAL RETURN			EXPENSES (AS % OF ASSETS) ²	PHONE NUMBER (800)	FUND (TICKER)	TOTAL RETURN			EXPENSES (AS % OF ASSETS) ²	PHONE NUMBER (800)					
	1 MO.	1 YR.	3 YRS. ¹				1 MO.	1 YR.	3 YRS.							
Large-Cap																
American Funds Amcap (AMCPX) ³	-5.0%	6.1%	8.4%	0.64	421-0180	iPath Dow Jones-AIG Comm. (DJP)	0.4%	13.1%	N.A.	0.75	764-7284 ⁶					
Am. Funds Am. Mutual (AMRMX) ³	-4.9	4.2	8.8	0.55	421-0180	iShares Dow Jones Select Div. (DVY)	-3.9	-2.8	6.1%	0.40	474-2737					
Fidelity Dividend Growth (FDGFX)	-6.1	3.3	7.2	0.60	343-3548	iShares S&P GSSI Nat. Res. Index (IGE)	-7.9	28.2	25.4	0.48	474-2737					
Fidelity Spartan 500 Index (FSMKX)	-5.6	5.6	9.0	0.10	343-3548	Third Ave. Real Estate Value (TAREX)	-4.8	-2.3	13.7	1.11	443-1021					
Fidelity Spartan Total Market (FSTMX)	-5.6	5.8	9.9	0.10	343-3548	T. Rowe Price New Era (PRNEX)	-6.8	34.2	26.8	0.67	638-5660					
iShares S&P 500 Index (IVV)	-5.6	5.6	9.0	0.09	474-2737	Vanguard REIT ETF (VNQ)	-6.7	-6.5	13.3	0.11	851-4999					
Jensen (JENSX)	-1.1	7.7	7.2	0.85	992-4144	Vanguard REIT Index (VGXIX)	-6.7	-6.6	13.2	0.21	851-4999					
Madison Mosaic Investors (MINVX)	-2.9	-0.2	4.7	0.95	368-3195	Foreign										
Matrix Advisors Value (MAVFX)	-7.0	2.5	6.8	0.99	366-6223	Am. Funds EuroPacific Gro. (AEPGX) ³	-1.5	23.9	22.5	0.75	421-0180					
Selected American (SLASX)	-5.0	5.5	10.4	0.90	243-1575	American New World (NEWFX)	-0.1	36.8	30.9	0.99	421-0180					
SoundShore (SSHFX)	-5.5	4.5	10.2	0.92	551-1980	Artisan International (ARTIX)	-1.2	25.5	22.2	1.20	344-1770					
T. Rowe Price B/C Growth (TRBCX)	-6.0	11.6	9.7	0.82	638-5660	Dodge & Cox Intl. Stock (DODFX)	-3.3	16.8	20.7	0.66	621-3970					
T. Rowe Price Equity Income (PRFDX)	-4.7	4.5	9.8	0.69	638-5660	Fidelity Spartan Intl. (FSIIK)	-3.2	16.9	19.0	0.09 ⁷	343-3548					
Vanguard 500 Index (VFINX)	-5.6	5.5	8.9	0.18	851-4999	iShares MSCI EAFE Index (EFA)	-2.6	17.2	19.0	0.35	474-2737					
Vanguard Total Stock Market (VTSMX)	-5.7	5.6	9.7	0.18	Oakmark International (OAKIX)	-5.7	4.2	15.8	1.09	625-6275						
Vanguard Total Stock Market ETF (VTI)	-5.6	5.7	9.8	0.07	T. Rowe Price Emer. Markets (PRMSX)	-2.6	52.0	40.7	1.25	638-5660						
Vanguard Windsor II (VWNFX)	-5.8	6.4	10.5	0.34	T. Rowe Price Intl. Discovery (PRIDX)	-3.2	26.2	27.1	1.24	638-5660						
Midcap																
Fairholme (FAIRX)	-4.9	16.2	16.4	1.00	202-2263 ⁴	Vanguard Emer. Markets ETF (VWO)	-2.7	50.2	N.A.	0.29	851-4999					
FAM Value (FAMVX)	-2.8	0.3	6.3	1.18	Vanguard Emer. Markets Stock (VEIEX)	-2.7	50.1	37.2	0.41	851-4999						
Fidelity Value (FDLWX)	-7.1	4.7	12.1	0.67	Vanguard Intl. Growth (VGWGX)	-2.9	21.0	20.9	0.54	851-4999						
FPA Perennial (FPFPX) ⁵	-0.4	7.8	9.2	0.92	Vanguard Total Intl. Stock (VGTGX)	-3.3	21.8	21.6	0.32	851-4999						
Janus Mid Cap Value (JMCVX)	-3.9	7.6	12.2	0.93	Bond											
Meridian Growth (MERDX)	-4.5	4.7	8.7	0.84	American Funds Amer. H/I (AHITX) ⁸	-2.0	3.5	6.3	0.65	421-0180						
Primecap Odyssey Agg. Gro. (POAGX)	-9.0	2.1	12.2	0.99	Dodge & Cox Income (DODIX)	0.2	4.9	4.0	0.44	621-3979						
Vanguard Mid-Cap ETF (VO)	-5.9	5.9	12.7	0.12	FPA New Income (FPNIX) ⁹	0.9	6.1	4.0	0.62	982-4372						
Vanguard Mid-Cap Index (VIMSX)	-5.9	5.8	12.6	0.22	Harbor Bond (HABDX)	1.6	7.5	4.7	0.58	422-1050						
Multicap																
Bridgeway Agg. Inv. 2 (BRAIX)	-7.5	21.5	17.7	1.21	iShares Lehman 1-3 Yr. Treas. (SHY)	1.3	7.0	3.9	0.15	474-2737						
Muhlenkamp (MUHLX)	-9.1	-7.8	2.5	1.04	iShares Lehman TIPS Bond (TIP)	3.1	9.2	4.6	0.20	474-2737						
Weitz Hickory (WEHIX)	-5.6	-10.2	4.3	1.20	iShares Lehman U.S. Agg. Bd. (AGG)	1.1	6.0	4.0	0.20	474-2737						
Small-Cap																
Bridgeway Small Cap Value (BRSVX)	-10.7	1.7	14.4	0.83	T. Rowe Price International Bond (RPIBX)	3.2	13.0	4.6	0.84	638-5660						
Royce Pennsylvania Mutual (PENNXX)	-5.0	4.2	11.6	0.87	Vanguard Infl.-Pro. Sec. (VIPSX)	3.2	9.2	4.7	0.20	851-4999						
Royce Value Plus Service (RVVPX)	-6.2	8.1	14.6	1.26	Vanguard Interim-Term T/E (VWITX)	-0.2	2.6	3.1	0.16	851-4999						
T. Rowe Price New Horizons (PRNHX)	-7.2	5.5	10.0	0.83	Vanguard Short-Term Bond (VBISX)	1.2	6.9	3.9	0.18	851-4999						
Vanguard Small-Cap ETF (VB)	-6.3	2.2	10.1	0.09	Vanguard Total Bond Market (VBMFX)	1.2	6.4	4.2	0.20	851-4999						
Vanguard Small-Cap Index (NAESX)	-6.3	2.1	9.9	0.23	Target-Retirement											
Specialty																
Cohen & Steers Realty (CSRSX)	-7.6	-7.8	14.3	0.96	T. Rowe Price Retirement (STOCK/BOND ALLOCATION)											638-5660