Forbes

Impact Investing And The O'Reilly Factor

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Do you want your investing or your purchasing decisions to have a social impact? Perhaps you have some cause to promote like the environment or gender equity?

In this essay I will compare four ways to make a difference. To give away the ending, the last is the potent one. Its effect was recently demonstrated in the termination of Bill O'Reilly's TV show.

1. DIVEST

If you want to construct a portfolio free of reprehensible companies, Wall Street is ready to help. This is big business. The Forum for Sustainable & Responsible Investing counts $8.7 trillion of assets managed with a view to corporate morality.

Fossil Free Funds scorecards investment companies for carbon contamination. It informs us, for example, that the Vanguard Health Care sector fund (VHT) is relatively innocent, accounting for 8 tons a year of carbon dioxide, or the equivalent in other greenhouse gases, per $1 million salted away. VHT is clean because Pfizer and Merck don't own steel foundries. With an index fund you'd be looking at 155 tons.

Sustainalytics has a more sweeping interpretation of economic goodness, one that encompasses labor relations, product safety, marketing ethics and suppliers' environmental records, among other things. Morningstar uses corporate ratings from Sustainalytics to compare the portfolios of funds. In this article I review that system and display a collection of ETFs that score relatively well at Morningstar.

The good funds will assuage your conscience. They may or may not save the planet.

You may hope that selling the shares of wicked companies will induce their managers to change their ways. Maybe it could if the selling depressed share prices and cut into the managers' option payouts.

But advocates of moral investing march on tricky ground. For them to say that their selling pushes down the share prices of bad companies is equivalent to saying that a dollar invested in these companies buys more earning power than a dollar invested in good companies. And that would mean moral investors sacrifice returns.

You won't find a lot of socially responsible money managers advertising that they are sacrificing returns. They want you to think their moral portfolios will do just as well as a portfolio loaded with the shares of polluters and tobacco companies.

My view is that responsible portfolios will do no better or worse than irresponsible ones. The market is very efficient, with even a penny of mispricing captured by some arbitrageur or other.

If I'm right about that, you're not going to sacrifice performance when you dump Exxon Mobil to buy Pfizer, but neither are you going to persuade Exxon to ditch its oil rigs.

So what's the point of divesting? The best case to be made for it is that it puts a spotlight on bad actors, causing those companies to lose customers. See item #4 below.

2. VOTE

You could try to reform from within. Instead of selling the shares of an offender, use them to vote for a shareholder proposal asking the board of directors to make a change in the way the company does business.

Until recently, proxy battles over social and environmental matters were rather quixotic. They became a little less so this year when two big institutional investors, BlackRock and State Street, declared that they might vote against directors who ignore climate risks or fail to get women on the board.

What's needed now: a mechanism for fund investors to pass through their voting power on behalf of causes they care about. I explain here.

3. DOWNSIZE

We have campus protesters demanding that endowments sell Exxon and Shell. If they succeed, the share trades, alas, probably won't reduce the amount of carbon in the atmosphere (see #1 above). But here's something with a tangible impact. The students could, instead, protest air conditioning. If it were turned off in every college dorm, less methane would be burned and there would be a reduced demand for nuclear power.

I'm hoping readers will, via the comment section, update me on the A/C protest movement.

4. BOYCOTT

You could direct your consumer dollars to the producers with the better records on environmental and social issues. We have already seen some schemes for bringing politics into the grocery store—such as that smartphone app steering shoppers away from products made by the Koch brothers—and there will no doubt be more as social/environmental scorecards become more accessible.

Impact? Potentially large. Contemplate why Fox News axed the O'Reilly show. The whiff of scandal was less consequential than the fact that advertisers were drifting away.

For further research:

Fund “sustainability” ratings are available without a subscription fee at Morningstar.com. Example: Type VTI into the quote box to get the Vanguard Total Stock Market ETF. Then select “preview of our new ETF quote page” and scroll down.

VTI gets a below-average rating because it owns shares of every consequential U.S. company, including the ones that are making mischief. SPDR Euro Stoxx 50 (FEZ) is above average because environmentalism is strong in Europe.

Morningstar analyst Jon Hale publishes research on sustainability. Here, he looks at whether ethical investing has lower returns than neutral investing; here, at where to find small- and mid-cap funds with good ratings.

Sustainalytics ratings of companies are valuable because they compare, not oil companies to pill makers, but oil companies to other oil companies and pill makers to pill makers. Unfortunately it isn’t easy to get your hands on these ratings. You can find them on Bloomberg terminals and, if you are a Canadian citizen, you can get them by opening a brokerage account at Scotiabank.

Fossil-Free Funds’ portfolio ratings can be found here.

Portfolio analyst Ron Robins publishes a newsletter on ethical investing at Investing for the Soul.

The recently published The Clean Money Revolution: Reinventing Power, Purpose & Capitalism, from venture capitalist Joel Solomon, describes what could happen when millennials inherit $40 trillion of capital.

Read that book alongside Milton Friedman’s classic essay dismantling the very notion of socially responsible investing. It appeared in the Sept. 13, 1970 New York Times magazine, available at libraries and, to subscribers, in the Times archive.