



Quick Q & A #20

Q: Is socially responsible investing an achievable goal?



A: Social responsibility is easy to claim but difficult to deliver.

The interest in socially responsible investments continues to grow each year as more and more individual investors and institutions seek to balance their financial needs with their moral commitments to fair trade, human rights, the environment, and other social causes.

Issuers of mutual funds and exchange traded funds – motivated either by social conscience or perhaps by their own self interests – have responded with a variety of investment vehicles carefully branded as socially responsible. While we applaud the goal, we encourage investors to evaluate these – and all other – investment products with equal measures of scrutiny and skepticism.

The basis for the social responsibility label may be very broad or vague. For instance, one prominent ETF describes that it selects securities by “analyzing community relations, diversity, employee relations, human rights, product quality and safety, environment and corporate governance.”



This sounds like admirable analysis, but does it mean that all companies in the fund have spotless records in all areas, or only that the most egregious violators have been culled out?

The Osbon Capital approach

Because it can be difficult to know what you are really getting in this category, we prefer to apply a very clear and narrow definition, along with an index approach. For our clients who seek a socially aware component in their portfolios, we maintain our own custom index – a basket of stocks that represents the 15 largest US contributors to community organizations.

These companies take significant cash off the balance sheet every year to contribute to social, educational, medical, cultural, and charitable organizations – more than \$5 billion as a group. While no definition is perfect, we favor this one because it is specific, clear, tangible, and measurable.

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Next time: Are markets efficient, and does it matter?

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