



Green Investors Need to Come Back Down to Earth: John Wasik

April 18 (Bloomberg) -- If you are an environmental investor, does it make sense to preach to the converted or try to reform the sinners? There are two schools of thought.

One is to pick only stocks and mutual funds whose practices are more environmentally sound than the average company or fund. The other is to wage campaigns to get the less-than-green companies to change their environmental policies.

Neither way is very effective in promoting large-scale environmental progress. Individual investors would have better results adopting a broad-based strategy and taking personal action for environmental change.

"I'm not a fan of green investing," says Louis Kokernak, a certified financial planner with Haven Financial Advisors in Austin, Texas. "There is no way that ExxonMobil can be as environmentally friendly as a Whole Foods grocery store."

Can environmentally sensitive mutual funds make a dent in the quest to address global warming, resource conservation and pollution reduction?

Green, or socially responsible funds, are such a small part of the more than \$2 trillion in assets managed for social responsibility, it's unlikely that their exclusion of "brown" companies and focusing on the green corporations will have as much clout as the actions of the large institutional managers.

Small Fish

By my tally, there is only about \$50 billion invested in the 76 socially responsible mutual funds listed on socialfunds.com, a social investing Web site, as of March 31. In comparison, the Vanguard 500 Index Fund alone had \$103 billion in assets, according to Bloomberg data.

The most well-known, broad-based proxy for green stocks is the \$1.3 billion Domini Social Equity Fund, based on the Domini 400 Social Index of socially and environmentally responsible companies. While you could own a portfolio of the greenest stocks on the planet, it wouldn't be the best investment to hold.

The Domini fund lagged the S&P 500 index by 9.5 percent from March 31, 2000, through March 31 of this year. If that wasn't enough to discourage you, consider that even with its green screening, the fund is almost a perfect statistical match with the risk or volatility of the S&P 500, with a beta of 1.01 (1.00 being an exact fit with the index).

Peers Do Better

Moreover, 96 percent of its peers did better than the Domini fund during the last five years. The fund is also expensive for an index fund, with 0.94 percent in annual expenses and a 12b1- marketing fee of 0.25 percent.

Since you can't pick a company or fund that's 100 percent environmentally pure -- every company consumes energy and wastes resources -- why not just construct a diversified portfolio and reduce your investment risk?

With a stock index fund that replicates the Wilshire 5000 Index of nearly every listed U.S. stock, you mix the saints with sinners yet avoid the risk of concentrating on a handful of companies.

Consider the Vanguard Total Stock Market VIPER, an exchange-traded fund that replicates the Wilshire 5000 Index of more than 6,000 U.S.-listed stocks. Not only would you have a greater chance of investing in a host of environmentally friendly companies -- the universe is 15 times larger than the Domini index -- your overall risk and expenses would be lower.

Smaller Fund Riskier

Charging 0.13 in annual expenses (plus a brokerage commission), the Vanguard fund had a standard deviation of 14.82, a common measure of risk, according to Morningstar.com, the investment research Web site. In contrast, the Domini fund had a standard deviation of 15.22.

Of course, there are plenty of social and green-screened funds that outperform indexes from time to

time. And there is no question that, as large investors, they practice what they preach.

Social funds are the most active vehicles for individual investors who want to indirectly show opposition to corporate environmental policies. As large stockholders, social funds voted against management 90 percent to 100 percent of the time when corporations wanted to block shareholder proxy resolutions on climate change (global warming) or reporting on long-term environmental progress policies, according to a recent study by the Social Investment Forum, an industry trade group.

Social Funds Active

Of the largest fund complexes surveyed by the forum, conventional fund groups only voted against management on climate change issues 6.8 percent of the time.

The Schwab fund group had the best ``green'' voting record of the mainstream funds, opposing management 37.5 percent of the time. The largest fund groups, including American, Fidelity and Vanguard, either abstained or sided with management in opposing shareholder resolutions on environmental questions.

If you want to make a more direct contribution to environmental change while bolstering your finances, examine your personal consumption patterns. You could drive less and use more energy-stingy products in your home and office.

Say you were to buy a hybrid electric-gas vehicle that averages 20 percent to 40 percent better fuel economy than a conventional vehicle. Assuming the useful life of such a car is 150,000 miles and you drove it for 10 years, you would save \$5,863 on gasoline, Kokernak estimates.

Once you include a \$2,000 U.S. tax deduction for the hybrid -- good only through the end of 2004 -- you would reap a 20 percent return on investment.

Save on Resources

Feel up to some personal political lobbying as well? Industrialized countries need an ``Apollo''-like program to build energy independence, not more slickly marketed environmental mutual funds. That means more power from renewable sources, energy-efficient buildings and appliances, and national standards for 50- miles-per-gallon vehicles -- or better.

Kokernak projects that if everyone in the U.S. drove a hybrid vehicle or total vehicle fuel efficiency improved by 30 percent (possible with meaningful federal laws), then U.S. oil imports for gasoline alone could decline to 9.3 million barrels per day from about 12 million.

The net environmental gain would also reduce the threat of global warming, reduce pollution and improve national security.

You can do the right environmental thing and still build your financial security. Just don't confuse ``green'' with prudent investing and your power to make a difference in the health of the planet.

To contact the writer of this column:
John F. Wasik in Chicago at jwasik@bloomberg.net.

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