Socially Responsible Investing – Doing the Right Thing?

Socially Responsible Investing (SRI) used to be a simple matter of spurning so-called "sin" stocks – usually tobacco, liquor, gambling and weapons manufacturers.

Today, this form of ethically-based investing has become a more complex process, where a company's total corporate behaviour, as measured by its workplace practices, environmental activities and corporate governance policies (among other criteria), play a deciding role in investment decision-making.

SRI enables investors to develop a personal investment strategy using measurable ethical, social and environmental criteria to align stock and mutual fund investment decisions with their own social and moral convictions.

The rise of SRI

This approach to investing has been gaining momentum as information about a corporation's social and environmental practices is getting easier to obtain through the media and specialized research companies that track and publish this information. Many publicly-traded companies are now routinely publishing annual reports about their environmental practices, corporate governance policies and global social activities, making it much easier for investors to find out how companies operate at home and abroad.

SRI has also been given a boost in recent years as some of Canada's largest pension funds -- including the Canada Pension Plan – have started to get behind broadly defined socially responsible investment practices.

This backing has served to alleviate investor concern that a portfolio based on SRI principles is likely to under-perform the market. In fact, indices that follow investments based on socially responsible investing criteria show no significant performance differences between a SRI-based investment strategy and its more conventional counterpart. This levels the playing field and makes the decision to pursue an SRI strategy a personal rather than a financial consideration.

The positives…

- SRI could be a way to diversify a portfolio by devoting a certain percentage of the asset allocation to investments based on SRI principles.
- SRI can be a useful tool to prioritize potential stock picks in a single investment category, industrial sector or sub-index.
- Social investing is getting easier for investors who can now choose from a growing number of Canadian mutual funds and exchange-traded funds (ETFs) that are committed to SRI principles.

And downside…

- Caution needs to be exercised so SRI doesn't unbalance the portfolio or unduly affect the investor's established asset allocation strategy or investment objectives.
- Risk factors need to be considered. Some ideal investments in the alternative energy, environmental and waste management industries for example are often considered high risk ventures and unsuitable for investors with a low risk tolerance.

SRI is a personally satisfying way to measure investment quality, but it is not a short cut around the other performance measures that go into sound investment decision-making. Your Raymond James Financial Advisor can advise you on the various options available for diversifying your portfolio into socially responsible investments, ones that are aligned with your values and that will still meet your investment objectives for the future.