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Morals and money

Ethical investors hardest hit by banking crisis

When banks go bust and talk of financial meltdown begins, it is difficult to think about anything other than the plummeting monetary value of your portfolio. So it is quite sad that investors also concerned with moral values are feeling the pinch the hardest.

Ethical investors have been among those hardest hit by plummeting banking shares as many ethical and socially responsible investment (SRI) funds have been overweight in financials. Rather than investing in oil and resources stocks that pollute the planet, ethical funds favoured the good old banks. But how ethical or socially responsible the banks have been in the past year is certainly up for debate. The problem with 'ethics' is that it's a woolly term that allows some funds to invest in Tesco and Shell and others to go for tiny save-the-planet companies.

Whether investing ethically will have a negative impact on profits is an ongoing debate. The average ethical fund is lagging behind the performance posted by traditional funds over one-, five- and 10-year periods, according to analysis by Investment Life and Pensions Moneyfacts, a magazine for professional advisers. The average ethical fund has fallen 9.1 per cent over the past year compared with a much smaller drop of 5.7 per cent just 12 months ago.

I don't think there will ever be a definitive answer to whether you can profit from your principles, but I do know that a UK perspective in ethical investing is too narrow. If you want to make money with a clean conscience, then pick a fund manager who invests globally.

A survey in the September issue of Money Management magazine concluded that the screening process has little effect on how an ethical fund performs. Instead it appears to be down to the manager's investment strategy and, at least to some extent, the universe of funds available.

It is no surprise, then, that the Aberdeen Ethical World fund, which is free to invest in any company in any country, is one of the best performers this year and over the past five years.