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Investing with a clear conscience

Catholics don't have to sacrifice big financial returns to invest in line with their ideals

By Scott Alessi - Our Sunday Visitor, 1/8/2012

The ups and downs of the stock market make any financial investment a risky proposition. Throw in the challenge of picking stocks that sync up with your faith and the path to being a successful investor can seem almost insurmountable.

For Catholics, however, investing in line with their faith isn't a road they have to travel alone. In fact, there are enough resources available today to ensure that ethical investment is not only possible for Catholics, but often quite profitable, too.

Through the practice commonly known as socially responsible investing, individuals can ensure that their ethical concerns are reflected in their financial portfolios. In the past 10-15 years, a number of faith-based mutual funds and financial advisers have made socially responsible investing their primary focus, opening up a range of new options for investors.

Financial adviser Tim Vinton, founder of Prosperitas Wealth Management, told Our Sunday Visitor that the gradual development of such resources has been a big help for Catholics in trying to make moral investment choices.

"It is not an easy task, but Catholic investing has come a long way since the 1980s, where it was pretty difficult to find enough funds to balance or diversify a portfolio," Vinton said. "Nowadays, that is more easily done just because of the number of Catholic funds out there."

Morals and the market

Church teaching clearly emphasizes the importance of placing one's faith above financial gain. The Catechism of the Catholic Church states that economic success should never come at the expense of human dignity and that "a theory that makes profit the exclusive norm and ultimate end of economic activity is morally unacceptable" (No. 2424).

Pope John Paul II specifically addressed Catholics' responsibility in the market in his 1991 encyclical Centesimus Annus, noting that "the decision to invest in one place rather than another, in one productive sector rather than another, is always a moral and cultural choice." The U.S. bishops also called on Catholics to consider the "human consequences and moral content" of their economic decisions in their 1986 pastoral letter "Economic Justice for All," and later issued detailed guidelines for socially responsible investment.

The bishops' guidelines provide a framework for understanding how investment choices may impact a wide range of issues. While traditionally investors with ethical concerns may have steered clear of so-called "sin stocks" — such as tobacco, alcohol or pornography — the bishops' investment guidelines look more deeply into a company's practices and its impact on the larger community.

According to Jesuit Father Robert Spitzer, president of the Magis Center for Reason and Faith and an ethical consultant to the financial advisory group Investing for Catholics, investors who wish to stay true to their beliefs have many considerations to take into account when selecting stocks.

Father Spitzer

“It is always a cause for concern, certainly among us as Catholics, that we’re not at least indirectly supporting activities that we know are contrary to our Catholic social teaching,” Father Spitzer told Our Sunday Visitor.

Those activities may include things like how a company treats its workers, whether it supports organizations like Planned Parenthood, and if it makes products that conflict with Church teaching, such as contraceptives. Companies involved in gross exploitation of other countries or destruction of natural resources should also be avoided, Father Spitzer said.

Gray areas

While in some cases, a company’s behavior would obviously prohibit a Catholic from investing in them, others make for more difficult ethical judgments.

Father Spitzer believes that when one worries that a company blurs the line between being an acceptable and unacceptable investment option, it is best simply to err on the side of caution.

“When in doubt, you can screen them out,” he said. “If there was a doubt about a company that was doing something that was pretty on the border, going right up to the line, you can leave that stock out and invest in other stocks, which will not affect your bottom line that much.”

But according to Phil Lenahan, president of Veritas Financial Ministries and author of “Seven Steps to Becoming Financially Free: A Catholic Guide to Managing Your Money” (OSV, $19.95), even when one tries to make cautious decisions, it is still a challenge to completely avoid ethical conflicts.

Phil Lenahan

“With an economy that is as complex as ours, it becomes very difficult to extricate ourselves in a completely black and white manner,” he said. Even when one opens a standard savings account, Lenahan said, there is no way to prevent the bank from then using that money for a loan to a company providing abortions.

In such cases, Lenahan said, individual investors should consider whether they are formally cooperating with an evil by choosing to invest knowingly in a company that contradicts Catholic teaching, or if their cooperation is only material through their financial contribution. In cases where investors are not directly choosing where their money will go, such as in a 401(k) plan or in the bank example, they are much further removed from the decision and thus have less control over how their funds are used. Investors should be more concerned, he said, about avoiding investing in cases that they know to be at odds with Church teaching.

“It is pretty difficult to limit all of the follow-up consequences,” said Lenahan. “But in terms of the immediate ones of whether a company is directly involved in something problematic, it is much easier today to invest money in a positive way and to avoid some of the worst scenarios.”

Two different worlds?

Attempting to balance these complex ethical decisions with everyday financial concerns can be even more daunting, especially when it involves trying to navigate the sometimes confusing world of investing. For average investors, who may have their money in a mutual fund or an employer-managed retirement plan, just figuring out what stocks they own can be a challenge.

“When we get a statement in the mail, it rarely goes through each particular company you are invested in,” said Vinton. “For example, a mutual fund can have 50 to 100 different companies inside that particular fund, and you really don’t know how many of those companies are violating our Catholic bishops’ investment guidelines.”

Mary Brunson, vice president of Investing for Catholics, told OSV that such concerns can be very stressful for people of faith.

“It is very difficult for Catholics who wear multiple hats. They go to Mass on Sunday, they feel very religious and they want to carry that feeling throughout their life, but they’ve got temporal concerns as well,” Brunson said.

“They’ve got to pay their mortgage, they’ve got to plan for their retirement. It almost feels like they’ve got to have their feet in two different worlds, and the reality is that they don’t.”

Faith filters

Catholics’ investment concerns can be allayed by organizations such as Brunson’s, which uses a detailed screening procedure to weed out companies in a portfolio that present a conflict with Catholic teaching. As a result, individual Catholics or larger Catholic organizations can feel confident that their investments are in agreement with their faith.

Investing for Catholics uses passive investment, which is done through the purchasing of large indexes rather than speculating on the potential success of individual stocks. They begin with a globally diversified fund based on selected risk and return metrics, which can be as large as 12,000 companies, and filter it for a range of Catholic concerns.

“Think of it like a colander,” Brunson told OSV. “You pour these 12,000 companies through the strainer and any company that does not meet the established criteria is going to be filtered out of the portfolio, and anything that does meet the criteria is going to pass through.”

Other companies, such as LKCM Aquinas Funds, take a multifaceted approach to faith-based investing that includes active participation in proxy voting and direct dialog with companies to address issues of concern to Catholic investors.

Richard Lenart, a representative of Aquinas Funds, told OSV that the company uses a web-based screening program that allows them to set multiple variables for assessing whether a company is in compliance with the bishops’ investment guidelines. The screening continues on a daily basis to constantly reevaluate companies, and those that fail the screening fall into one of two categories: blacklisted companies that clearly violate Church teaching and companies on a “watch list” whose practices require further clarification.

“If somebody is doing embryonic stem cell research, then there’s no question, we don’t invest in them,” Lenart said. “But there are some things that are very hard to get an answer on with companies nowadays, like if they are investing in Planned Parenthood. Some of them are but they try to hide it.”

Approximately 5 percent of companies are completely eliminated, Lenart said, and another 10 percent are likely to be on the watch list while fund representatives engage in a discussion with the company. When Aquinas Funds learns that a company they would otherwise be interested in investing in is in fact doing something that conflicts with Catholic values, they attempt to persuade the company to change their practice. In some cases, that can have a powerful effect.

“I find that now the gray area is shrinking because there is more pressure on companies to do away with some of the things they are sponsoring, and more people are seeing the light and getting away from things like involvement with Planned Parenthood,” Lenart said.

Profit margins

The use of Catholic screening may alleviate ethical concerns of investors, but some may still worry that taking some potentially big name stocks out of the mix will jeopardize their financial future.

Vinton, who works with several Catholic fund managers in building customized portfolios for clients, said that since only 5 to 10 percent of stocks are screened out there's still plenty of opportunity to make financially rewarding investments.

"It is really not reducing the returns at all," he said. "In fact, many of the funds that are Catholic screened are outperforming the markets and they are outperforming the same secular funds that are not screened, so that is a very good feeling."

Some of the funds have done so well, he added, that even non-Catholic investors are drawn to them.

"There are plenty of organizations and companies out there that are not even Catholic affiliated that are using these particular funds just because of the performance," Vinton said.

When it comes to passive investing, there is also opportunity for success after screening. Even if the number of potential investments is drastically reduced by the filter, Brunson said, it still leaves one with a large, diversified portfolio that carries the same potential risk and return possibilities.

"Your expected return will have a variance that is almost insignificant," she said.

"That is the beautiful story that goes along with this Catholic values portfolio — you don't have to sacrifice expected return to adhere to your Catholic values," said Brunson. "You can in fact do well by doing good."

Investor responsibility

In their 1986 pastoral letter "Economic Justice for All" the U.S. bishops called on Christians to be responsible shareholders, actively working to help shape the policies of the companies they invest in.

But Catholic groups have long played a role as engaged shareholders in large corporations. Groups such as the Interfaith Center on Corporate Responsibility, a coalition of religious organizations established in the early 1970s, have led the charge of faith-based investors in holding companies accountable for how they do business.

"Active ownership is a responsible way in which a person of faith is not passively sitting by and looking for maximization of return," said Oblate Father Seamus Finn, a member of ICCR's governing board. "They are concerned about how the money is being made." As a shareholder, Father Finn explained, an individual has multiple opportunities to make their voice heard on company practices. For example, they can be active in proxy voting, engage in direct dialog with company representatives, or file shareholder resolutions on a particular topic of concern.

"Companies these days are much more receptive to trying to engage the concerns of shareholders," said Father Finn. "They are interested in trying to communicate with their shareholders and stakeholders, and I think that's a good thing."

There is especially strength in numbers, he added, which has led many religious orders and other faith-based groups to join coalitions to bring concerns to a company. The larger the group — and the more attention they are able to attract to their cause — the greater their chances of success.

"The great thing about this is that you are no longer a voice crying out in the wilderness," Father Finn said. "Once you start down this road, you are probably going to find that there are lots of people that are working on the same issue. So you have some allies, you can put together a team to talk about a specific issue and to do the kind of research that is necessary to meet with a company."

Organizations like the Tri-State Coalition for Responsible Investment, an ICCR member made up of Catholic religious orders and institutions, are actively involved in bringing shareholders together to pressure companies to change their policies. Among their successes have been organizing shareholders to call on General Electric to end its pollution of the Hudson River and persuading Ford Motor Company to set greenhouse gas emissions reduction targets.

More recently, Father Finn points to successful conversations with some of the major financial institutions, such as Goldman Sachs and J.P. Morgan Chase, to create a greater risk management structure that would help them weather another financial crisis. Though these types of practices can be costly to the company, he said, the voice of investors can persuade them to make a change.

Scott Alessi writes from Illinois.

See also: Voicing consumer concerns can change corporate practices

Bishops' Investment Principles

In their 1991 statement on socially responsible investing (revised in 2003), the U.S. Catholic bishops identified the following six areas of concern for investing in accordance with Church teaching:

1. Protecting Human Life: Catholic investments require "absolute exclusion" of companies that are directly involved in or support abortion, the manufacture or sale of contraceptives, and the use of embryonic stem cell research or human cloning.

2. Promoting Human Dignity: Companies must show concern for the protection of all human rights, including access to life-saving drugs at an affordable cost for low-income communities. This also includes the exclusion of all racial or gender discrimination and the prohibition of producing or profiting from the sale of pornography. Shareholders are called to use initiatives and resolutions to promote equality and respect for human dignity in all areas of a company's work.

3. Reducing Arms Production: Shareholders should encourage the limitation of both the production and sale of weapons and the conversion of corporate capacity to nonmilitary uses. Companies that produce, sell or utilize antipersonnel landmines are also excluded as potential investments.

4. Pursuing Economic Justice:

Companies should provide workers with fair wages and benefit policies, as well as a safe working environment. Financial institutions must also provide fair and equal access to credit and work specifically in urban neighborhoods to ensure access to affordable housing.

5. Protecting the Environment: Corporations' practices must take into account their impact on the planet and should use environmentally-sensitive technologies. Shareholders should encourage companies to work toward energy conservation, development of more environmentally conscious practices and the reduction of greenhouse gases.

6. Encouraging Corporate Responsibility: Not only should investors use socially responsible guidelines in choosing which companies to invest in, but corporations should have policies for social responsibility as well. This includes transparent and open reporting on the social, environmental and financial aspects of a company's performance.