# ‘Woke’ may make you broke

## Theo Marinis explores the belief that to be truly alert to the injustices in society, you must customise your own portfolio, based on your values. But at what cost?

Maybe it’s the fires, maybe its Adani, maybe it’s the Zeitgeist — but very recently, a number of my clients have asked me about ethical investing. They are becoming more ‘woke’.

A decision not to buy ‘sin’ stocks is your choice.

From an economic point of view, I estimate the bottom line for running a ‘woke’ portfolio at a cost of around 1.5 per cent per annum on average net returns. This is conservatively based on returns being 1.0 per cent per annum lower, and a 0.5 per cent per annum increase in investment management costs.

In simple terms, on a million-dollar portfolio in 2020, this translates to a $15,000 per annum loss.

In reality, however, for the luxury of sleeping more virtuously for the next decade, the compounded loss is approximately $293,832.

While my relatively wealthy clients expressed a lack of concern about these opportunity costs, it is also worth understanding that the power for making change is really held by those ‘on the inside’.

Activists will put pressure on lenders and suppliers – evidenced recently by the 300 anti-Adani protestors arriving at the Siemens AGM in Germany, and many local banks refusing to lend to coal initiatives – but the real change comes from the directors feeling the heat from share and unit holders.

Still, many are discomforted by the thought that they may be enriched by companies whose values are not in alignment with their own, and clearly, there is movement in society demanding an ethical investment approach.

Many will go directly to a stockbroker to construct a saintly portfolio which will exclude a range of sinners – including tobacco, alcohol, gambling, mining, armaments manufacturers, to name a few.

Nevertheless, one person’s definition of sin is another’s well deserved pleasure – and it might be a great investment!

For example, an omnivore might consider vegans and vegetarians as being in much the same mould, but to a vegan, a person who eats cheese is robbing a calf of its natural food supply – and wearing leather shoes is an accessory to murder.

Others may have no issue with alcohol when it’s sold and consumed responsibly, but many people consider it completely sinful. We all have different values.

I anticipate there will be a number of fund managers, and some stockbrokers, crunching the numbers on ethical investing to participate in this new demand. Consumers must, however, recognise they are doing this to make money.

Ethical investments are usually sold at a significantly higher cost because the ‘seller’ understands that the purchaser is emotionally motivated to buy.

There are signals from a well-known index fund manager that their Ethical Index Fund is currently under construction.

I will look at this product closely when it is available BUT will it exclude tobacco, alcohol, gambling, armaments manufacturers etc or JUST fossil fuel related industries? How about nuclear?

My advice to my conscientious clients is to buy index funds – with the full knowledge that they include unsavoury stocks like tobacco or miners – make as much money as they can in a financially sustainable way, and use this excess to make a difference in the world. Then, use the power of being an investor to agitate for change from within.

https://www.eurekareport.com.au/investment-news/woke-may-make-you-broke/146920

With an outperformance above a 'saintly' or ethical fund today, you could easily afford to put solar panels on your roof (less than $10,000) add back up batteries (for say, another $10,000) and quickly save up $66,000 to buy a Tesla Model 3 electric car.

You could then come off the grid and make a real difference to the environment, save on energy costs and use the returns from the sinners to "hoist them on their own petard!"

I am personally not comfortable with hubris (or 'virtue signalling' as it is now called) around investing. In principle, if society gives a business a social licence to operate, then we should all benefit from its financial success. However, companies change – and internal pressure is far more compelling than activism from outside.

Remember entities like Cobb & Co, or how about Holden… who don't, or won't exist anymore. But we do have companies like Ford and Tesla. There is no 'fixed' universe of companies on the stock exchange or the index in which we invest. Nor is ruling out one company on the basis of perceived wrongdoing necessarily an effective investment strategy. Take the human example of Ned Kelly – police killer or freedom fighter? We all have different perceptions.

It is easy to criticise Adani from Sydney and Melbourne in our air conditioned, well-lit homes, usually powered by coal – and deny the same privilege of reliable electricity to the citizens of New Delhi or Mumbai – or remove the opportunity for employment for coal miners, train drivers and the wellbeing of regional areas of Australia.

There is no doubt that ethical investing is becoming attractive to an increasing portion of the community. However, many people will eventually realise that excluding investments in certain very profitable market segments comes at a significant cost – and that even buying such a fund may mean having to compromise values a little, as no company is completely 'clean' – whatever that means to the individual.

One of my clients came to this realisation when we were having this very discussion. He said to his wife: "Theo is right. We have just as much money in the bank as we have invested on Theo's advice. How do we know to whom the bank is lending our term deposits?"

Make as much money as you can from your investments and use your profits to make your own life more 'ethical'. Put economic pressure on the sinners and polluters – or donate it to worthy causes which help others to do the same.

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