Do-It-Yourself Ethical Investing *Pays*

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Many investors could increase profits and assemble a portfolio more in accord with their personal values if they actively managed their own investments.

This opportunity is in part due to the vast resources of the web. But particular knowledge is also essential for successful do-it-yourself (DIY) ethical investing.

Well-informed DIY ethical investors can make big financial gains from three main sources:

1) Huge potential savings on investment related fees – particularly by favouring low-fee individual stock purchases and using a discount broker.

Total annual fees for most investors using a stockbroker or investment advisor usually range between 2% to 4% of their portfolio's value. These include account advisory fees, mutual fund/ETF management fees, trading commissions, and account activity fees.

But these seemingly small percentages quickly add up to quite a lot. Consider an initial $25,000 investment, 5% yearly nominal growth and 2.50% total annual fees. After 25 years, that investment would be worth $44,956.02. However, dropping annual fees to 0.5% increases the value of that investment to $74,687.77. An additional gain of $29,731.75 or 66.14%!

Furthermore, DIY ethical investors may see even lower annual fees than 0.5%. For example, they may have no brokerage maintenance fees, and after creating their initial portfolio might only make a few trades a year – each costing just $7-$10 in trading commissions. This reduces their annual fees to almost nothing.

2) The DIY ethical investor often trades less, again resulting in lower fees. This is frequently due to the 'loyalty' they have towards their investments.

3) Better returns can be made by focusing on 'higher quality' securities. It's a controversial point, but consider that most ethical investors' personal values concerning investments typically relate to environmental, social and governance (ESG) activities of companies. And the most comprehensive independent academic research confirms that companies excelling on these criteria frequently produce above average long-term profits.

As an aside, there's bad news and good news concerning the usefulness of stockbrokers and financial advisors. The bad: many studies show their investment recommendations routinely produce below market long-term returns. The good: studies also show that stock brokers and advisors are often valuable in helping investors maintain savings plans and tempering their emotions in turbulent markets. Such help generally improves these investors' long-term results. Hence, this is still the best option for investors unwilling to seriously engage in the type of DIY long-term investing described herein.

How much capital is required for DIY ethical investors to create a personal values-based stock portfolio? Well, it is generally accepted that a diversified portfolio of at least 10-15 stocks is preferable. Since it is easy today to purchase small amounts of shares inexpensively, the amount of capital required need not be large. (However, for infrequently traded stocks the investor may have to pay above market prices, particularly when purchasing a small number of shares.)

How much time is needed? Initially, DIY ethical investing needs about 2-3 hours a week for 3-6 months to create a portfolio, and then 2-3 hours a month over the long-term to manage it. (And no math or financial accounting skills are required!)

Therefore, effective and most profitable DIY ethical investing requires spending time both acquiring and practicing some special knowledge and having a requisite mental discipline.

For this optimal DIY ethical path, investors first determine their personal values, then what industries they best align with, and finally proceed to selecting companies in industries that have been pre-screened by ethically-socially responsible investment (SRI) rating agencies and indices, ethical-SRI funds, etc.

Among the many sources for locating such companies are RobeccoSAM's Corporate Sustainability Yearbook 2017, S&P ESG Indices, and FTSE4Good Index Series.

Also, numerous ethical-SRI funds are found at Morningstar Sustainability Rating for funds, US SIF SRI funds, Responsible Investment Association (Canada), YourEthicalMoney.org (UK), and Choice Ethical Investing Guide (Australia). Upon determining the funds of interest, a little further research reveals their screened holdings.

After choosing the companies that appeal to them, DIY ethical investors research corporate social responsibility (CSR)/sustainability/media reports, etc., on how these companies perform in relation to their personal values. For this, it is best to create a computer filing system and a process to collate the relevant information as well as a methodology to 'score' each company with reference to their personal values. Companies with the top scores in each industry make it to the financial and performance-review stages.

With the resources of online brokers and specialized free sites and internet search facilities, investors can view how numerous financial/investment analysts ascertain and envisage the profit potential for most, if not all, of their selected stocks. After this step, DIY ethical investors can make their stock purchase decisions.

Though DIY ethical investing requires some work, it can pay handsomely. The process is engaging and fun too. But the skills to do it effectively can be more quickly acquired with coaching from those experienced in this work.

 Ron Robins, MBA, has more than forty years of engagement with ethical investing and is founder, analyst, and tutor at Investing for the Soul.