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Market Outlook:

SRI, redux

It might be premature to talk about a "correction" but there is no question that all S&P sectors have hit a bump in the road.

Following another week of critical declines in the averages, it is becoming more and more important to divert one's attention from the hourly up and down progression of traditional equity and bond trading. If nothing else, I urge caution about getting swept up by the negative emotion that comes about by an obsession over something for which you really have no control.

I've given a lot of thought and written extensively recently to how investments in socially responsible companies can divert your focus while also returning value to your portfolio. It's not an idle exercise.

In recent years, younger clients and those intent upon addressing the inequities in global economics have increasingly demanded a spotlight upon strategies that not only can help to achieve their own financial investment objectives but which also directly respond to societal needs such as eradicating hunger and poverty, or developing alternative and renewable energy sources. And it has been a good fit because I have used my proprietary quantitative tools to explore these very issues since the last millennium.

More importantly, as socially motivated investors become more results oriented, the need to create real portfolio alpha has also become more noteworthy.

The basic problem during the last 30 years has been that most "green" product offerings haven't translated into performance for clients. Instead, most of these funds have been concessionary at best to the factors that really matter in effecting results for the planet and for clients' grandiose expectations about making money in those industries.

In fact, because of shoddy research or too aggressive marketing campaigns, many of the public offerings in socially responsible funds contain only a few of the companies in this realm in their overall portfolio. The largest allocations go instead to corporations that pay lip-service to socially friendly practices but have a minimal effect upon the mission's outcome. Purchasing these products in the past might have been a "feel good" exercise, but has done little in the way of achieving a desired result...either for one's portfolio or the planet.

Indeterminable

So why do I feel so compelled to redouble my efforts in this space?

For one, my research is neither sector nor capitalization specific. That's good because we enter this project with no preconceived notions about what we will find. My goal, instead, is to isolate publicly traded issues which fall into a "capital gains projection" grid and whose management and mission has already been vetted for good will and profits in their chosen endeavor. Only then will I "bunch" these equities into an appropriate basket and title them by their proper sector. The goal is not to try and fit a square peg into a round hole but rather to eliminate all "holes" (silos) altogether at inception.

Without any predetermined biases we can aggregate the data, then create a macro framework for portfolio positioning. The devil is in the micro details, and our experience with quantitative allocations hopefully allows us to be more effective in achieving both ends of the client's mission statement.

As with any investment there is always a risk that early-stage companies cannot keep up with a break neck pace of production or, worse, that mature companies grow weary of underperformance in their lower divisions that are not yet mature enough to pay dividends to shareholders.

Of course, this topic is, at its core, quite multifaceted. If you are looking for immediate gratification or less compelling stories you may not find it in the "future" of mankind. There are intricate, intensive discussions that have to be had, and which also pose significant unknowns.

A topic not for the faint of heart.