

Financial Foresight

Dempsey Investment Management • Winter 2010 Edition



Sustainably Responsible Investing

Originally defined as “socially responsible investing” in the financial marketplace, the term has now morphed into “sustainably responsible investing”. Most think of SRI as purchasing investments which are “friendly” to the earth and its inhabitants. Initially SRI was broad-based and had a theme of exclusions of so called “bad” industries or practices like liquor, cigarettes, weapons and polluting companies. While that practice still occurs, that is now just a part of the strategy. You will find there are plenty of options in the marketplace, regardless of your personal values.

The numerous options available today, especially in ETFs, have been in response to investors’ social and environmental concerns. The difference now from the initial selection process is the funds are looking for pro-active investments. They are not screening out the “bad” so much as they are screening in the “good”. Currently, some of the more popular funds and ETFs involve the environment (solar, wind, clean energy, and etc.), religion, and corporate sustainability.

While there may have been some niche players in this marketplace, one of the first mutual funds to offer SRI was the Domini Social Index fund, launched on 6/03/91. By 1995 there were 55 funds with \$12 billion in assets.¹ In 2007 there were 260 socially screened mutual funds in the U.S. with assets of \$201.8 billion.² In addition to mutual funds there are also exchange traded funds (ETFs), and professional money managers available whose sole focus is on SRI. According to the Social Investment Forum, “Nearly one out of every nine dollars under professional management in the United States today -- 11% of the 25.1 trillion in total assets under management tracked in Nelson Information’s Directory

of Investment Managers - is involved in socially responsible investing”.³

It’s probably obvious that companies like Ben & Jerry’s have social missions based on a core belief. But what if a company goes green just to make money? Does the corporate motivation matter? Walmart certainly would not have fit into any SRI funds a few years ago, but now the argument could be made that Walmart is leading the charge in corporate sustainability. You can see their environmental goals right on their web site. “Our environmental goals at Walmart are simple and straightforward: To be supplied 100 percent by renewable energy; to create zero waste; and to sell products that sustain our resources and the environment.”⁴ Their motivation may not be holistic but does that matter if they can effect change? They also state, “On September 26, 2007 at the Clinton Global Initiative, Walmart pledged to transition all of the liquid laundry detergent on its shelves to the concentrated “compact” versions of detergent by May 2008”.⁵ Their estimates were for reductions of 125 million pounds of cardboard, 95 million pounds of plastic resin and 400 million gallons of water.⁶ The obvious trend you are seeing is that companies are promoting their sustainability to improve their image, profits, and win over customers.

By making the packaging a little smaller for nearly 300 toys, Walmart used 497 fewer shipping containers. Also estimated was a savings of more than 3,800 trees and 1,000 barrels of oil.

-<<http://walmartstores.com/FactsNews/FactSheets/>> (20 November 2009).

If Walmart continues to flex its muscle, thousands of suppliers and manufacturers will feel compelled to work with the new rules. This should make socially responsible customers happy.

What about performance and risk? Many investors are concerned that by going the

SRI route you reduce your investment options and hurt performance. The numbers may tell another story. If we look at the Domini 400 Social Index which was started in 1990 we see that it has outperformed the S&P 500 over that time with an annualized return of 10.83% vs. 10.33% for the S&P 500.⁷ SRI funds most often have the feel of growth funds, not value funds, which bring with it volatility. Looking at www.claymore.com, we see that the Claymore/Mac Global Solar Energy Index ETF (TAN) was down 44.91% from 10/01/08 - 09/30/09. So while SRI offers plenty of growth opportunities, investors should be careful to stay diversified or risk getting burned. Many SRI funds are very narrowly focused and have above average volatility and risk. Another important item to consider is cost. Most SRI funds & ETFs are more expensive than traditional funds & ETFs.

If you have definite social screens, individual stock selection with a money manager may be the best way to go. With this arrangement you can be more selective in your portfolio. A narrowly focused sector investment should, at most, remain a very small percent of your overall portfolio. As always, first look at your goals and risk tolerance before making any changes. Feel free to call me to discuss sustainably responsible investing. You can also visit www.socialinvest.org or www.socialfunds.com.

¹ [Socially Responsible Investing Facts](http://www.socialinvest.org/resources/sriguide/srifacts.cfm), <<http://www.socialinvest.org/resources/sriguide/srifacts.cfm>> (8 December 2009).

² [Socially Responsible Investing Facts](http://www.socialinvest.org/resources/sriguide/srifacts.cfm).

³ [Socially Responsible Investing Facts](http://www.socialinvest.org/resources/sriguide/srifacts.cfm).

⁴ [Fact Sheets](http://walmartstores.com/FactsNews/FactSheets/), <<http://walmartstores.com/FactsNews/FactSheets/>> (1 January 2010).

⁵ [Packaging Fact Sheet](http://walmartstores.com/FactsNews/FactSheets/), <<http://walmartstores.com/FactsNews/FactSheets/>> (December 2008).

⁶ [Sustainability Fact Sheet](http://walmartstores.com/FactsNews/FactSheets/), <<http://walmartstores.com/FactsNews/FactSheets/>> (20 November 2009).

⁷ [Performance and Socially Responsible Investments](http://www.socialinvest.org/resources/performance.cfm), <<http://www.socialinvest.org/resources/performance.cfm>> (8 December 2009).

2009 Tax Issues

By Ken Nussbaum

As you reflect on 2009, it would also be a good time to consider if there are any tax breaks available to you. Perhaps there are some that you unknowingly stumbled upon. Sure, it may be too late for you to max out your 401(k) or take advantage of other strategies that expired as the ball dropped in Times Square. But isn't there something that might help you to reduce your tax liability? Well, the answer depends on what you did during the past year.

First Time Homebuyer Credit

Did you purchase a home last year? You may be eligible for a credit. What's that you said? It wasn't the first home you'd purchased? Not to worry. You might still qualify! And it is certainly worth finding out, as the credit could be as much as \$8,000. There are restrictions, of course, and, in general, you won't qualify for this credit if you've owned a home in the three years before your purchase. As of November 6th, however, there is a new flavor of the credit – a \$6,500 variety. Again, there are very specific requirements. Suffice it to say that if you purchased a home this year, particularly after November 6th, you should inquire as to

whether the credit is applicable to you. Feel left out because you closed – or will close – on your home after the end of 2009? No problem. Depending on when you close in 2010, you might still qualify!

Energy Credits

Didn't buy a new home this year? Had to settle for fixing up your old one? Guess what? You might qualify for some tax credits. While not as substantial as the First Time Homebuyer Credit, you could benefit from certain energy-saving improvements, including:

- Insulation material or systems
- Exterior windows and doors
- Certain metal or asphalt roofs
- Furnace or hot water boiler
- Qualified solar electric and water heating property
- Qualified small wind energy property

Sales Tax Paid on New Car

Too busy enjoying your new car to spend

Note for Vermont Residents

Don't forget to file your Homestead Exemption form for your property taxes. The deadline is April 15.

time fixing up your home? You might benefit from the deduction available for sales tax paid on new cars, trucks and other vehicles.

Post 12/31/09 Planning Opportunities

Now that 2009 has ended, you may think that you are out of luck as far as tax planning is concerned. Luckily, you may still have a few options.

You might, for instance, contribute to a traditional IRA and get a tax deduction which would reduce your tax liability. Alternatively, you might choose to make a contribution to a Roth IRA, which, while it provides no current income tax benefit, may prove to be very beneficial in the future. Note that eligibility requirements may impact your ability to contribute.

Other possible strategies available after the end of the year include contributing to an HSA and making contributions to a special retirement account such as a SEP.

Ken Nussbaum practices as a CPA in Richmond, VT. He has expertise in areas such as estate planning, charitable giving strategies and tax consulting/preparation. He can be reached at ken@knussbaum.com and 802.264.9629.

Resolutions for 2010

At the beginning of each year, many of us will make resolutions. I have outlined some financial goals that should be considered. Hopefully many of these goals have already been reached. If not, let's make them happen in 2010.

Estate Planning: Do you have a will? If so, does it need updating? In addition to a will, an estate planning attorney may recommend a trust, durable powers of attorney and an advanced directive.

Credit: Have you checked your credit lately? At www.annualcreditreport.com you will be connected to one of three credit reporting agencies: Equifax, TransUnion and Experian.

You are allowed one free report each 12 months. Many people find errors on their report and it is better to catch it early.

Consolidate: Do you have small accounts at banks, mutual fund companies, credit card, and brokerage firms? Consolidating can reduce your annual fees and simplify your life.

Do Not Call or Mail: Eliminate phone solicitations and junk mail. To get on the Do Not Call list you can visit www.donotcall.gov or call 1-888-382-1222. To be on the Do Not Mail list, write a short letter asking each person be removed from marketing and mailing lists. Address: Mail Preference Service Direct Marketing Association, P. O. Box 643, Carmel, NY 10512.

Debt: Try to reduce your debt, especially if the interest rate is high or variable. Perhaps you are sitting on cash and have debt at the same time. With current interest rates near 0%, this could save you money.

Budgeting: Keep track of your annual expenses. www.mint.com helps you track your income, spending and debt - and it's free. Mint connects to your credit cards and bank statements to track where money is going. This may be an eye opener and motivation to change your spending habits to help you reach your financial goals.

If you can check off even a few of these items this year, you will be on your way to a better financial picture. I wish you prosperity in 2010!