Going 'green' cuts profits

IT'S NOT EASY being green — or investing in it.

Socially active investors who make it a point to avoid companies that pollute, sell cigarettes or ship jobs to Asia will mark today's 35th annual Earth Day celebration with both a clear conscience and a light wallet.

BY TOM VAN RIPER
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The bulk of the $36 billion in "socially responsible" investments resides in about 40 mutual funds that cater to the green investor. A Daily News analysis showed returns on two-thirds of them lagged behind their competitors over the past five years, with more than half losing money outright. The funds have collectively lost 1.8% per year since 2000.

Still, activist investors tend to be a tough lot of true believers. Most recognize that their scruples could come at a cost.

"I decided I needed to put my money where my mouth was," said Michael Marchetti, 37, an ecology professor in southern California who disdains defense, animal testing and tobacco.

So, he nixed his financial planner's proposal that called for putting retirement funds into stocks like General Dynamics and Philip Morris, even though projected returns were much higher than the Pax World Growth fund he chose.

Marchetti is one of many such green investors who one financial analyst described as a "Scruppie." That's a variation on "Yuppie," describing a new breed of investor claiming to be upwardly mobile and socially conscious at the same time.

"They're typified by the Ben & Jerry's guys, making a gazillion dollars but with a conscience," said financial planner Charles Failla of Sovereign Financial. Failla puts about 5% of his clients' money into green funds, based on their requests.

Socially conscious investing got its real start in the early 1970s, when some activists refused to invest in defense contractors during the Vietnam war. The movement evolved to include nuclear power and apartheid in South Africa, along with smoking and drinking. Now, it's the environment and overseas job outsourcing that get the most attention.

"Some thought the old issues would be one-shot deals that would pass," said Scott Budde, a managing director at TIAA-CREF, which manages about $7 billion in socially screened investments for its members — mostly teachers' retirement funds — through both a mutual fund and a variable annuity. But new social issues always pop up to replace the old ones.

The $36 billion invested in green U.S. mutual funds is still less than 1% of the $5.6 trillion market. But it's more than triple the level of five years ago, according to Morningstar.

TIAA-CREF is one of several big fund companies that's added a socially responsible fund to its stable in the last few years, joining the likes of Dreyfus and Smith Barney. They join smaller, traditional green funds from lesser known investment houses like Ariel, Calvert and Green Century.

"It is limiting," Failla of Sovereign Financial said of the typical returns. "My first responsibility as a planner is to take care of their financial needs, but to some the trade-off is worth it."

ILLUSTRATIONS BY CHARLES FAILLA

Many mutual funds lowering fees

IF YOUR MUTUAL FUNDS haven't been earning as much as you would like this year, at least they aren't costing you as much as you fear.

Fund fees are coming down. Some 844 funds trimmed expenses this year, twice as many as lowered fees in 2003 and 2004 combined, according to analyst Jeff Tjornehoj of Lipper, a unit of Reuters Group.

Morningstar, the Chicago-based research firm, said fund fees now take up a lower percentage of investors' cash than they did in 2003.

Some companies, such as Fidelity Investments, cut fees to keep up with the competition. Others dropped their fees to settle complaints by state Attorney General Eliot Spitzer. Still others are positioning themselves for other shoes yet to drop: tough Securities and Exchange Commission regulations governing expense disclosures and the possibility of shareholder suits over unfair fund fees.

The industry still has a long way to go. You'd expect great economies of scale in an industry whose assets have quadrupled in 10 years. But much of those savings have gone into the pockets of brokers who sell the funds, said Morningstar analyst Russel Kinnel.

Recent settlements with regulators show that some brokers have been mistake-prone, or downright deceptive, in the way they calculate those fees.

As a result, investors have seen very little of the savings, Kinnel wrote in a recent analysis.

There's a lot more cost-cutting to do, some say. Meanwhile, smart investors will look carefully at what they spend for funds and where it's going.

Remember that expenses are very important, but they aren't everything.

Once you've done your research and selected the best collection of funds for you, it won't make much sense to keep switching funds every time you find one that shaves fractions of a percent off your fees.

But keep watching that space just in case the fractions start to add up and make a serious difference in your bottom line.

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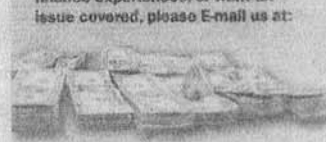

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