
CHAPTER 8

ETHICAL INVESTING - PUT YOUR ETHICS WHERE YOUR MONEY IS!

Investing money has always concerned those who want to be financially responsible. Now, more than ever, investing one's money is a social responsibility as well. In this chapter, students will learn about some of the issues for ethical investing. The topics chosen will give an overview of some of the rewards and challenges of responsible financial investments. The [activities](#) will provide teachers with some tools for teaching about ethical investing. The extensions to the lessons offer opportunities for further study and analysis for those who are particularly interested in the topic of ethical investments. A list of useful [terms and expressions](#) gives students definitions of key terms. The list of [Internet resources](#) offers information and resources for in-depth study and discussion.

Companies and individuals in the 21st century will use their money to make more money. However, there are ethical ways of doing this. In this chapter, we will look at some ways in which professional investors help companies and individuals to make ethical decisions about where they will invest their money.



BACKGROUND INFORMATION

Ethical investing means **allocating** financial resources, taking into consideration both economic and social **criteria**, with the goals of maximizing the potential financial and social returns to both the **investor** and the **investee**.

What Is Needed For Ethical Investments?

In order to make sure that you are making an ethical investment, you need three types of resources:

1. A certified professional financial analyst
2. Information about the company or companies in which you are considering investing
3. Criteria to guide you in choosing ethical investments

The information below will help you discuss this topic.

Certified Professional Financial Analysts

Financial analysts, like all professionals, must be recognized as competent by a professional group (usually peers) who **certify** their skills as being minimally competent in order to do the work they are paid to do. In the United States financial analysts or professional investors are certified and licensed.

Standards of practice are established and used by financial analysts for certification purposes. A professional standards commission or association guides certification and licensure of individuals who want to be financial analysts.

The commission or association is guided by a set of rules: Standards of Practice. One example of such a list of standards, with descriptions of how to use the Standards, appears on this web site:

<http://www.cfainstitute.org/ethics/codes/ethics/Pages/index.aspx> In addition, there is a handbook that guides financial analysts in their work. This handbook is available at the same site.

In order to make ethical decisions about investments; people need professional financial analysts who advise them on making investment decisions. Those individuals, in turn, are guided by standards, as described above.

However, people need more than good advice in order to know how and where to invest money in a socially responsible way. They need current and accurate information about investments.

Information about Companies

In order to make ethical investments; we need information and knowledge about the **stock market**, the companies that sell stocks, and how they use invested money.

The Internet has become a powerful worldwide tool for ethical investments. Anyone in the world who has access to the Internet can get detailed and up-to-the-second information on any and all factors that influence **socially responsible investing**.

What do we learn about socially responsible investing on the Internet? The following list of important factors about ethical investments answers that question:

1. International news – wars, peace agreements, emerging conflicts between nations, and any major decisions made by the leaders of countries
2. National news – government decisions and changes, announcements by financial leaders (both government and private), banking and interest rates, and accidents
3. Regional or local news – in some cases, events that occur in one city can have a "**ripple effect**" on the international stock scene. For example, when Tylenol, an over-the-counter drug produced in the U.S., was found to be contaminated in a Chicago suburb, stock prices for pharmaceutical products of all kinds plummeted.

4. Even **offhand comments** made by high-profile leaders in a given region or locality can influence the stock market in that region and beyond. Such comments are likely to be important to the ethically conscious investor.

Criteria for Ethical Investing

Ethical investing means that we should select investments that meet two criteria:

1. The companies are performing well as financial investments
2. The companies' products do not cause illness, disease or death; destroy or damage the environment; or treat people with disrespect

When choosing a company or organization in which to invest, we should consider these criteria. If we were concerned about ethical investments, we would, for example, probably not invest in a company that sells cigarettes because the product violates criterion #2 above: cigarette smoking has been shown to cause illness and death. Some investors would consider this to be unethical.

How to Choose Ethical Investments

Now that we know what we need in order to make decisions about ethical investments, how do we go about choosing the company or companies in which to invest money?

First, we focus primarily on the effects of the company's products and services. For example, if the company's products or services cause people to be healthy, improve the environment and empower people, we know that these are highly ethical companies. We might want to invest in these companies if they also meet the second criterion. We would not invest in a company only on the basis of its ethics, but on the basis of ethics in combination with its financial performance.

Second, we would list the benefits of investing in a company: How might our money support ethical causes? For example, if our investment in a coffee company were to improve the standard of living of the farmers working in the country or region where the company operates, we might want to invest in that coffee company.

These criteria for evaluating companies are highly **inclusive**. If we look carefully, we can find some opportunities for investments that will perform well and benefit society.



CLASSROOM APPLICATIONS

Materials:

- Make and distribute copies of the **Background** information for all students

- Arrange for students to access the Internet during class



WARM UP ACTIVITY -- PRE-READING: WHAT DO I ALREADY KNOW ABOUT INVESTING?

Objectives:

- To introduce the topic of ethics in investing
- To activate students' interest and background knowledge
- To introduce key terms

Procedures:

1. Explain that today's lesson is on ethical investing. On the blackboard, write and then read aloud, the following definition of ethical investing, taken from the Background Information:

Ethical investing means allocating financial resources with consideration for both economic and social criteria.

2. Now, ask students to tell you what they know about investing and what they think the sentence means. Encourage students to expand on their definitions with examples from their experiences. For students who may have difficulty, teachers may wish to provide a few minutes for paired or small group discussion. Teachers can assist students during this time.
3. After the discussion, one student from each pair or group might tell what he/she thinks the statement means. In addition, students may want to discuss
 - a. Who would invest their money in any company?
 - b. Why invest in one company and not another?
 - c. What could an investor do if a company engages in unethical business?

Troubleshooting:

A basic principle used by investors to make money is this: If I carefully invest money, I hope to get more. As in any lesson, teachers will judge what to do and how to present the material and guide the discussion on investment in order to meet the needs of the students in the class.



ACTIVITY #1 -- OUTLINING THE READING

Objectives:

- To introduce basic concepts in Ethical Investing
- To generate new knowledge on the topic of Ethical Investing

- To help students gain confidence in discussing the topic.

Procedures:

1. Write the following main sub-headings from the [Background](#) information on the blackboard:
 - a. What do you think is needed in order for someone to make sure they are making ethical investments?
 - b. How would an individual select an ethical investment?

[Note: These headings, like the definition above, are taken directly from the Background text and represent some of the critical information needed in order to learn more about ethical business investments.]

After the discussion, the teacher will give students a text of the Background section and ask them to read it individually, in pairs, or in small groups. The teacher can also lead a "round robin reading" of the Background in small groups, with each student reading a section. If the teacher wants to check the students' understanding the teacher can ask students (individually) to read a paragraph, and then to paraphrase the paragraph for the class or for a small group of students.

The outline template below will assist students in completing this step:

Outline of the Reading

What do you think is needed in order for someone to make sure they are making ethical investments? [Hint: There are 3 things.]

1. _____

Details:

- a. _____
- b. _____

2. _____

Details: [Hint: According to the reading, Detail 2b has more information than Detail 2a.]

- a. _____
- b. _____

3. **Criteria for ethical investing**

- a. _____
- b. _____
 - i. _____
 - ii. _____
 - iii. _____

How would one go about choosing an ethical investment?

- 1. _____
- 2. _____

ACTIVITY #2 -- FIND AN ETHICAL INVESTMENT

Objectives

- To use and apply criteria from [Background](#) (above)
- To surf the web in search of companies
- To explain reasons for choices in investments

Procedures

1. Review the material in the Background section. Make certain that the students understand the section entitled, "Criteria for Ethical Investments."
2. Have students find a minimum of ten companies on the Internet. Several companies are listed in the [internet resources](#) section of this chapter.
3. Ask students to find as many companies as they can which meet the criteria for ethical investments. Have them list those companies and explain why they think that these companies meet the criteria.

Note: Teacher may wish to remind students that there are very few companies that meet the criteria.



COOL DOWN ACTIVITY -- WHAT DID WE LEARN?

Objectives

- To conclude the lesson
- To assess students' learning

Procedures

1. Have the students discuss (whole class) what they learned in this lesson and on the blackboard, list all points mentioned. Try to involve all students in the discussion.
2. Now, ask students to list ideas for using their knowledge about ethical investing. Write these on the blackboard.



LESSON EXTENSION

How does the Philip Morris Company market itself on the web as an ethical choice for private investment? Check their tobacco web site <http://www.philipmorrisusa.com/> and respond. Interview classmates or others on their attitudes about cigarettes and tobacco sales.

INTERNET RESOURCES

Exploitable Content

- <http://www.greenmoney.com>
The GreenMoney Online Guide
This site promotes the awareness of socially and environmentally responsible business, investing and consumer resources. Visit this site for investment guidelines and links to screening for cruelty free/environmentally oriented investing.
- <http://www.socialinvest.org>
Social Investment Forum
The Social Investment Forum is a national non-profit organization of members who promote the concept, practice and growth of socially responsible investing. This site offers comprehensive information, contacts and resources on socially responsible investing.
- <http://www.goodmoney.com>
Good Money Homepage
This site provides information about how people can use the power of their money as investors, consumers, and businesspeople to bring about the changes necessary to improve social and economic conditions throughout the world.
- <http://www.ethicalinvesting.com>
Ethical Investing
A guide to ethical investment resources, with links to the topics of investing – techniques and philosophy of ethical investing; Internet resources for ethical investing.
- <http://www.socialinvest.org/resources/sriguide/srifacts.cfm>
Socially Responsible Investing (SRI) is a broad-based approach to investing that now encompasses an estimated \$3.07 trillion out of \$25.2 trillion in the U.S. investment marketplace today. SRI recognizes that corporate responsibility and societal concerns are valid parts of investment decisions. SRI considers both the investor's financial needs and an investment's impact on society. SRI investors encourage corporations to improve their practices on environmental, social, and governance issues. You may also hear SRI-like approaches to investing referred to as mission investing, responsible investing, double or triple bottom line investing, ethical investing, sustainable investing, or green investing.
- <http://www.socialfunds.com>
SocialFunds.com -- Socially Responsible Investing
This site has over 1000 pages of strategic content to help you make informed investment decisions regarding socially responsible investing.

Useful Terms and Expressions

Allocating - (verb): allot, earmark, set apart, appropriate

Certify -(verb): vouch, verify

Criteria - (noun, plural): standard, measure, yardstick (singular: *criterion*)

Inclusive - (adj): full; including everything; comprehensive

Investor - (noun): entrepreneur, capitalist, businessman/businesswoman

Investee - (noun): The company in which an investor or entrepreneur puts his/her money.

Offhand comments - (noun phrase, idiom): verbal remarks that are made without a great deal of planning or forethought; for example, a high level official makes an informal or unplanned comment about the future of the stock market

Ripple effect - (noun phrase, idiom): when one action influences other actions

Socially responsible investing - (noun phrase): putting money into a company whose actions and products do not cause disease or death; do not destroy or damage the environment; and treat people with respect

Stock market - (noun): the place where people can buy and sell shares of companies

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