

Values-Aligned Investing

Step into Your Financial Power

Whether you realize it or not, you're already an investor. Your money is having an impact somewhere, somehow. This is true even if all you have is a savings account. Every entity in which you save or invest your money is using your assets for some purpose. The question is whether this supports the things you value—or undermines them.

When you take greater responsibility for understanding your investments, you can use the power of your capital to make a difference in the world. Values-aligned investing, while novel, is not a new practice. In the US, it can be traced back to 1758 when religious societies like the Quakers didn't allow their members to invest in companies involved in the slave trade.¹ The momentum picked up in the 1960s when opponents of the Vietnam War blacklisted weapons manufacturers and continued into the 1980s as students demanded divestiture from South Africa as a response to apartheid. Today many people are interested in “voting with their dollars” and boycott companies that do not support their values and patronize the ones that do.

In the best-case scenario, 100% of your portfolio would be invested in the things that matter to you. Personally, I have made a pledge to invest all of my assets in alignment with my values. But you don't have to make the same commitment I did. You might prefer to make a smaller commitment initially and take this step-by-step. Perhaps you could start by shifting some of your assets into investments that create positive change. Or you might decide to keep the investments you already have and allocate all your new assets to values-aligned financial products.

As you learn, you'll gain more confidence and may decide to move even more money into alignment with your values. That is what happened to me. My increased desire and ability to reallocate my money to funds, companies, and financial institutions that deliver positive results is an outgrowth

of gaining more confidence in my overall investing knowledge and skills. Follow whatever approach and timing feels right for you. We're not here to tell you what to do. Instead, we want to give you the tools you need to feel empowered and to make more informed investment decisions.

Before digging into what values-aligned investing is and how it works, let's take a look at the dynamics around how women currently invest, what they want, and the potential women have to change the world for the better based on the investment choices they make.

Women Think Differently About Money

Our current economic model has led to a world that does not work for all of us. It enables businesses to maximize financial gain without full consideration of the adverse impacts their operations have on people or the planet. Since these damaging effects do not have a direct financial cost to the business, they are often ignored or underreported. Even worse, businesses have been known to obfuscate, refuse blame, or actively cloud an issue to avoid having to pay the full cost of their negative impacts.

This has led to environmental degradation, social problems, and other adverse consequences that are known as externalities. In economics, a negative externality is a cost that affects a third party who did not choose to incur that cost. An example would be a manufacturing plant that contaminates a nearby lake but does not pay for its cleanup. The cost is ultimately paid, but it is borne by the people who live near the lake, taxpayers, or both—not the company that created the problem. This approach is not sustainable, and it does not bode well for our health, happiness, or prosperity—or for that of our children and grandchildren.

Today's financial system also undervalues the priorities of women. As wage earners, we garner only 81 cents on the dollar compared to men.² As entrepreneurs, we get a mere 2.2% of the venture capital funding.³ And as money managers, women serve as the exclusive managers for only 2% of mutual funds.⁴ Across the board, the situation is even worse for women of color. We are also living in a country where the top 1% of the population holds more wealth than the entire middle class.⁵ However, it doesn't have to be this way.

The prevailing winner-takes-all mentality is not the way women show up in the world. It's not who we are. We are collaborators, coalition builders, and promoters of win-win scenarios. We definitely want to see our money grow and achieve great financial returns, but not at any cost. Of course, we want to make money through our investments, but it's not enough for us to simply receive a competitive return. We want more, and guess what, so do our children.

In 2017, a Morgan Stanley study found that 84% of women and 86% of millennials were interested in sustainable investing.⁶ Two years later, their biennial report showed interest had grown even more: 95% of millennials said they wanted to invest in alignment with their values, and 50% of all respondents in the survey already had at least one sustainable investment.⁷

As women, we are clear. We want to direct our dollars toward a future of prosperity, inclusivity, and sustainability. We want to see our children, our communities, and our planet flourish. We want the ways that we show up to support our values. We want to walk our talk.

If enough of us align our money with our values, we can help change the face of the economy from a “profit at any cost” model to a more sustainable and equitable approach. We can accelerate a movement to a financial system based more on long-term sustainability than on short-term gain. We can pivot markets to a model that works better for people and the planet, not just shareholders. We can also dramatically increase the number of women-led businesses that receive funding, and we can underwrite the development of products and services that meet our needs as well as those of our children. And we can do all that without giving up financial return. Our combined potential is bigger than you think. In fact, it is incredible!

You Already Have a Lot of Financial Power

As women, we already control more than 50% of the personal wealth in this country, and that percentage is expected to rise to 65% by 2030.⁸ As of this writing, 45% of millionaires in the United States are women, and the number of wealthy women in the country is growing at twice the rate of wealthy men.⁹ We have become a financial force, and that financial power can create great change. But that change will only come when we decide to take more control of our assets and invest in ways that make us feel good.

With *#MeToo* and other female-focused movements, women are galvanizing change. While advances have been made in many areas, women are still lagging when it comes to their money, even though their overall wealth is growing.

When you think about your money, you probably consider what it will buy, what you and the people you love need and want, how much you have or don't have, whether you'll have enough to retire, and how to get more of it. Regardless of how much money you have, you probably stress about it—in one way or another. You probably worry about whether it is invested wisely, whether it is safe, whether it is growing, what will happen in the next economic downturn, and whether you are getting good financial advice.

Money is a constant theme in our lives. If you are like many women, you probably wish you didn't have to worry about it at all. To many of us, managing and investing our money seems overwhelming, hard, and often the least favored item on our to-do list. You might wish that someone else would just handle it for you. And that is what a lot of women do. They leave their money in the bank—and hope for the best. Or they hand their financial agency over to someone else. We all do this. But at what cost?

The first cost is to our ability to grow our wealth over the course of our lives. Many women know there is a gender pay gap but might not be aware there is also an investment gap. Not only do men earn more, they also retire with three times more money than we do, even though we save more.¹⁰ According to a 2018 study by BlackRock, women keep 71 cents on the dollar in savings rather than take the risk of investing, and possibly losing, it.¹¹ Meanwhile, men invest and grow their wealth. They're more willing to take the risk, whether they feel fully confident or not.

Our lack of confidence in our ability to invest and build our wealth is hurting us. This gap has led women to hand financial authority over to the men in our lives—husbands, male relatives, and financial advisors. When we pass responsibility for our money to others, we're putting ourselves at risk. We're also giving up our agency, our financial security, and the potential to change where money flows—and what it affects. Even worse, we're setting up our daughters and granddaughters to be uninformed as well. It's time for us to take back our financial agency, and this book will help you do just that.

When we invest, we do it differently than men. When we hand our agency to men, we are letting them invest in the way that works for them, not for us. Women tend to be more cautious and more analytical as we assess potential investments. We want to understand risks before we take them. We are more willing to collaborate, whereas men are more likely to trust their gut and go it alone. Our approach serves us well, and we create broad networks of colleagues along the way. This makes investing more fun and more effective, because it exposes us to additional knowledge and new opportunities.

We also have a greater propensity to invest in the things that matter to us, and increasingly we want advisors that listen to, and educate, us. Ask yourself, What would it be like to feel skilled, competent, and self-assured about my money? And how would it feel to be confident enough to teach your children how to be investment-savvy?

Eventually, you will most likely be put in a position where you have to take on responsibility for your money, whether you want to or not. As a woman, you will probably be alone at some point in your life—because you stayed single longer, or divorced, or outlived your spouse or partner. Whom will you trust when the person (usually a man) overseeing your finances is

no longer there to guide you? When the sands start to shift beneath your feet is not the right time to start learning. If you're going to have to learn to be a better investor at some point, why not start now? And why not do it in a way that actually makes you feel good?

What About Financial Returns?

Some of you may be wondering if you have to give up financial return to invest with your values. No, you do not! Yet, perceptions of a trade-off between sustainable investing and financial gain have proven stubborn. People who argue that you will give up financial return when you invest consciously are most often referring to investments made in the stock market. These naysayers are not even considering other asset classes, such as cash, fixed income, private investments, or alternatives, where the trade-off can be hard to find. They are primarily focused on stock funds that incorporate ESG (environmental, social, and governance) criteria, and even there, they are wrong.

The evidence supporting ESG investing is mounting. In 2019 *Cornerstone Capital Group*, a women-led financial advisory and research firm, undertook a comprehensive review of research papers that looked at the potential trade-off between ESG criteria and financial performance. They analyzed over 2,200 studies conducted since the 1970s and found the research consistently concluded that ESG standards do not compromise investment performance.¹²

*A 2017 study by Nuveen TIAA Investments, 2016 research by Barclays Research, and three meta-studies in 2015—one by Deutsche Asset & Wealth Management, another by Oxford University and Arabesque partners, and a third by Morgan Stanley—provided similar results.*¹³ The Morgan Stanley study looked at more than 10,000 mutual funds over a seven-year period. Their analysis showed that investing in sustainability not only met, but often exceeded, the performance of comparable traditional investments. This was true on both an absolute and a risk-adjusted basis. And it was true across all asset classes over the period studied.¹⁴ Follow-on research by Morgan Stanley in 2019 provided further support to these earlier studies.

Even with all this evidence, some people continue to argue that ESG results in lower returns. One of their arguments was that we didn't know what would happen in a serious economic downturn. As a result of the market collapse in early 2020, now we do know. We learned that ESG funds performed better during this period, according to research by Morningstar, MSCI, BlackRock, and other leaders in the finance industry.

You don't have to take our word for it. As we progress through the book, you will learn how to compare social impact scores and financial

returns across the most commonly traded index, exchange-traded funds, and mutual funds in the US stock market. You will see for yourself that there doesn't have to be a trade-off between values-alignment and financial return in the stock market and that this is the case with other asset classes, too.

Some Terms You Need to Know

Impact investing, ESG, socially responsible investing (SRI), green investing, conscious investing, and mission-driven investing are all terms used to describe aspects of values-aligned investing. If you ask five people what a specific term means, you're likely to get five different answers. This book uses the definitions that follow.

Terminology

Conscious Investing

Investing in such a way that an investor is aware of the impact their money is having on the environment and society. In conscious investing, the investor makes a conscious, aware choice.

Socially Responsible Investing (SRI)

One of the earliest terms coined. Often associated with negative screening in the public equities market—negative screening focuses on what is not included in an investment.

ESG

Environmental, social, and governance criteria that are used to evaluate companies for investment purposes. Research shows that companies with higher ESG scores have improved returns because they represent lower risk.

ESG Investing

The act of investing in high-scoring ESG companies. Although some consider ESG investing to be an approach across all asset classes, it primarily refers to investments in fixed income and public equities (also referred to as the stock market).

Green Investing

Investments specifically related to conservation of natural resources, production of alternative energy sources, and other environmental sustainability goals.

Impact Investing

While some use this term to refer to social investing across all asset classes, it usually refers to debt and equity investments in private businesses that have a mission directly tied to intentional positive impact.

Mission-driven Investing

Investments that align with the mission and values of an organization, usually a foundation or endowment. Mission-driven investments are often concessionary and made out of a special pool of money that is set aside for this purpose. Also called program-related investing.

Social Investing

An investment strategy that seeks to consider financial return and social/environmental good. Also referred to as sustainable investing, socially conscious investing, and ethical investing.

Sustainable Investing

Investments that lead to sustainability for people and the planet.

Values-aligned Investing

A comprehensive approach in which investors seek to align their money with their values across all asset classes.

Even Small Investments Make a Difference

The first person you need to be satisfying with your investments is yourself. If it matters to you that your money supports the things you care about, then it matters, regardless of how much you have to invest. It also matters on a larger scale because small things add up in a big way. Our greatest impact is a collective one. It is felt most acutely when large numbers of us choose to move our money where our hearts are. And when enough of us make that choice, things change.

Although investors have been voicing concerns about sustainability for several decades, it's only recently that they have been translating their words into actions. And those actions are making a difference. *The Harvard Business Review* states that in 2006, 63 investment companies with \$6.5 trillion in assets under management (AUM) signed a commitment to incorporate ESG issues into their investment decisions. In 12 years, there were 1,715 signatories representing \$81.7 trillion in AUM. And today, more than half of global asset owners are implementing or evaluating ESG considerations in their investment strategy.¹⁵

Don't underestimate the power of the purse. If women in the United States shifted an average of \$20,000 in existing savings and investments into financial products aligned with their values, an additional \$2.56 trillion of assets would move,¹⁶ and that would definitely cause the investment companies that manage our assets—as well as the business entities themselves—to take notice. While some of us do not have \$20,000 in assets, many of us have considerably more.

How you invest your money also matters because it is a reflection of who you are. It mirrors your deepest values. It brings you into integrity with other aspects of yourself. And it is the part of your road to financial freedom that will bring you joy and make the entire process of investing deeply satisfying. The ultimate metric for your investments is how they make you feel.

How can you know if you're having a positive impact with your investments? Sara Olsen, one of the leading thinkers in measuring socially responsible investments, says there are three fundamental impact issues to understand:¹⁷

1. The effect your investments have on you and how they make you feel;
2. The effects they have on the world, particularly in terms of avoiding harm and benefiting a wide range of stakeholders; and
3. The degree to which the investments are living up to their social contract by contributing to solutions to pressing social and environmental problems.

The degree to which you incorporate all three of these factors into your investments depends on the amount of money you are investing as well as the type of investment. If you make a \$10,000 investment in a stock fund, for example, the research you did to determine whether the fund was aligned with your values (e.g., no fossil fuel companies, gender equity, social justice) may be enough for you to feel good about that investment. If you invest \$500,000 into a private equity fund, then you probably want to push further and seek more assurances that the fund managers will invest in companies that are creating viable solutions for problems that matter to you.

We'd all like to think that managing our investments and growing our wealth is easy and risk-free. We want simple, quick solutions. We're excited to read blog posts that promise five easy steps to financial freedom. Those essays extol financial basics like living below your means, saving as much of your money as you can as early as you can, and taking advantage of matching funds in employer-sponsored retirement funds.

While this is valuable advice, those tenets do not help you invest. Nor are they sufficient for the long term. Investing wisely takes time. You need to learn, experiment, and take risks. You need to build your confidence and skills. Smart, successful investing and wealth creation is not

a one-to-five-step sprint. It's more like a marathon. The training starts slowly and then builds over time until you are amazed that you are about to run 26 miles! And then, it becomes an enjoyable lifestyle. The same is true of strengthening your investment chops. But it doesn't have to be overwhelming, boring, or anxiety provoking. It can actually be fun.

Investing and investing with your values do not have to be two separate things. In today's world, they can be one thing. When you invest with your values, you are just making different choices in the banks where you save your money and in the financial products you buy. When you know where to look for values-aligned investment options, making values-aligned investment decisions becomes as easy as making non-values-aligned decisions.

Attaining Financial Fulfillment

You're probably familiar with the concept of financial freedom, which means having enough money to afford the lifestyle you want even into your retirement. This is a goal that we all aspire toward.

Suze Orman took this concept even further in one of her podcasts. In it she claimed that financial freedom is not the goal.¹⁸ She believes the true goal is financial independence, which she describes as having knowledge about your money, being involved in financial decisions, and not being financially dependent on others. It's interesting to note that some women who are financially free are still financially insecure. They may have enough money for their current and future needs, but they still don't feel safe.

If you leave the management of your assets to others, you are depending on them to make the right decisions for you. Even with the best of intentions, no one else is going to care about your money, or how it's invested, as much as you do. I learned this the hard way more than once.

In one instance, my financial advisor suggested I put 25% of my total assets into what I considered high-risk investments. Since I'd been doing my homework, I knew that most advisors recommended only 10% of a portfolio be invested this way. I did not feel comfortable with my advisor's recommendation, and because I had that knowledge, I pushed back, refusing their advice. If I hadn't known better, I would probably have agreed to the 25%, even if my intuition caused me to have a sinking feeling in my stomach. I would have been fearful of challenging my advisor.

Another time, an advisor told me that my stock fund was aligned with my goals—one of which was related to climate change. I trusted him. My money sat in that fund for five years. At some point, I decided to look at the companies held in the fund. Imagine my shock when I discovered that about 20% of my holdings were in oil and gas companies! I felt betrayed. If I hadn't taken it upon myself to look, I would never have known what was

really in that fund. I decided I would never be that uninformed again. It was time for me to get directly involved with my money and my investments. And I encourage you to do the same.

When you invest with your values, you can move beyond financial independence to what I call financial fulfillment. Financial fulfillment offers the joy that comes from knowing your investments are a true reflection of your values and the deep contentment that comes from recognizing that your money is working for you and for the world.

So is this hard? Yes and no. Creating financial fulfillment takes time and attention, but you don't have to do everything at once. In fact, I encourage you to take one step at a time. By working your way through each chapter in this book, you can learn and get comfortable with one part of your portfolio before moving on to the next. Your confidence around investing will grow, and you will gain agency and invest for a better world as an ongoing practice that moves at your own pace.

Just as you do not need to do everything at once, you do not need to do everything yourself. Engage your friends, learn together, support each other, share the work, and enjoy the process. Seek additional support from your family members, colleagues, peers, and financial advisors. If women learn together and remove the taboos that we carry around money, then we can learn how to be financially free, independent, and fulfilled. And we can change the world for the better at the same time.

Prepare to Learn, Experiment, and Have Fun

There's no silver bullet when it comes to investing, and the road is not without potholes. Expect that you'll make some mistakes. I guarantee at least once in your lifetime, the stock market will go down—possibly way down. The government will change the tax rules. And what you thought would happen won't and what you never imagined will. The best advice I can give you: Roll with it. You can't control what's coming down the pike. What you can control is how you approach uncertainty.

Be smart, be watchful, learn, experiment, make mistakes, pick yourself up, and try again. Being smart about your money, learning, investing, and growing your wealth is a practice. And like any other commitment you make, it is achievable.

If you are young and just starting to invest, you're in an enviable position, because you are starting with a clean slate. That means you can make values-aligned investment choices from the outset. For someone like you, there is really no reason not to invest this way. If you are older and have existing investments, you'll need to decide whether you want to sell some or all of those assets to reinvest them in a more values-aligned

manner. You may not be prepared to sell assets that have embedded capital gains, which is completely understandable. In this case, you can focus on cash, tax-deferred retirement accounts, or investments with limited gains. You can also sell during a market downturn, which is what I did in March 2020 when the stock market had its biggest decline since the 2008 financial crisis.

Prior to that market drop, I had a plan to sell all the stock funds I owned that were not aligned with my values. Since some of those assets had significant embedded gains, I decided to sell them over a five-year period to minimize my tax burden in any one year. When the stock market collapsed as a result of COVID-19, many of my gains had turned into losses. So I sold them, harvested the losses, and immediately bought back into the market. But this time I invested in stock funds that aligned with my values. It felt great to have such a positive outcome during an otherwise extremely difficult time.

I realize not everyone will choose to sell all their current holdings, even during a market downturn, and that's fine. You don't have to move everything into alignment if that feels like too much. Do what feels right to you. I am confident that as you do, as you learn, you will be motivated to do more. That is what happened to me and to many of the women who contributed to this book.

Take Action

After reading this chapter, take some time to think about your impressions. What resonated with you the most? What steps can you take to move forward? Make a list of action items and move at a pace that feels right for you.

No investment is too small. Whether you decide to start with \$100 or have \$10 million to invest, values-aligned investing is smart investing, particularly when you think about the long term. It can also be fun, creative, and something that you do in community with other women.

For the sake of your financial fulfillment and a better world for all of us (and our children), the time to start is now!

Endnotes

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