



Response Ability

by Bill Dickneider

Queso and Crackers are two bright mice who often discuss saving, investing, and the stock market. Let's tune in on a recent discussion about Hurricane Katrina

Being Responsible

"Here I sit, munching on a piece of cheese, while grief and destruction swamp the Gulf Coast," said Queso. "I have a responsibility to help. The least I can do is give to a charity."

"I just did that," said Crackers. "But companies ought to be doing the same thing."

"They've already donated nearly \$300 million," said Queso. "Wal-Mart is one example. It's promised \$15 million for the Katrina Relief Fund and is giving \$1 million each to the Red Cross and the Salvation Army. It's also helping employees whose jobs were lost and guaranteeing them work in other Wal-Mart stores."

"I'm glad some companies are taking responsibility," sighed Crackers. "But I plan to invest in companies that are socially responsible *all* of the time."

"But what is social responsibility?" asked Queso. "It's obvious that WorldCom and Enron weren't so-

cially responsible. Some of their managers went to prison because they stole money belonging to the companies' stockholders. But most companies are run honestly in the best interest of their stockholders. Isn't that being socially responsible?"

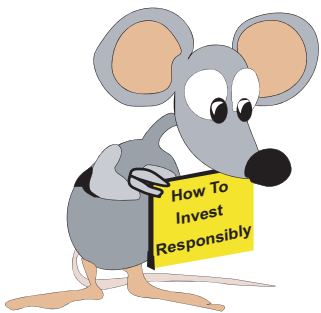
"I don't think so," said Crackers.

"Well, isn't that what companies are supposed to do?" asked Queso.

"Stockholders hire managers to run a company for them. They invest their savings in the company because they usually want the highest return possible. Not all companies succeed, of course, but their mission is to try."

Mutual Funds

"Well, I think companies should focus less on stockholders' earnings and more on the welfare of workers, customers, and communities. Here, take a look at this list of mutual funds," continued Crackers, while handing the list to Queso. (See next page for list.) "These are some of the



Who owns the companies listed in the stock market?



funds that invest only in socially responsible companies.”

“Many of these funds screen out companies that offer tobacco, alcohol, weapons, and gambling,” observed Queso.

“Right,” agreed Crackers. “Companies producing those things aren’t socially responsible.”

“A lot of investors wouldn’t agree,” said Queso. I know I’m glad we have companies that make weapons for our national defense.”

“Look,” said Crackers, “I think there are all kinds of things that companies should or shouldn’t do to be socially responsible. Some could pay workers more, and some could make safer products. Others could improve parks or aid communities. Other companies could stop doing things that harm the environment. Companies should always behave like they are now in response to Hurricane Katrina.”

“That was the worst national disaster we’ve ever had,” said Queso. But normal, everyday business is another thing altogether. Companies aren’t charities, you know. The money they spend belongs to stockholders. It’s true that spending money for charitable causes can also improve stockholders’ earnings. Workers might become more productive, for instance, or better community relations could bring in more customers. But if a company’s managers spend money for any worthy cause that comes along, they’d put the company out of business. Wouldn’t that harm workers, customers, and stockholders?”

“Well, I think companies should think more about the well-being of society and less about how much they can earn,” answered Crackers.

Earnings & Well-Being

“Can’t the two goals go hand-in-hand?” asked Queso. “Companies usually survive over time only because they sell products that customers are willing to buy at prices they’re willing to pay. They must offer acceptable jobs to workers and keep costs and prices as low as possible. So to earn money for stockholders, companies must benefit their workers and customers. By being responsible to stockholders, companies end up being responsible to society in general.”

Some Socially Responsible Funds

Ariel Fund (ARGFX) – Invests to meet the fund’s test of social responsibility. Excludes companies making tobacco, nuclear energy, and handguns.

Calvert Funds – Various funds that invest in companies that meet the fund’s standards for social responsibility relating to the environment, workplace, product safety, and other factors.

Citizens Income Fund (WAIMX) – Avoids companies earning money from tobacco, alcohol, weapons, and nuclear power.

Domini Social Equity (DSEFX) – Based on the S&P 500, the fund invests only in companies that meet its standards of social responsibility.

Neuberger Berman Socially Responsive Fund (NBSRX) – Invests in companies that meet its criteria of social responsibility. Excludes companies dealing in tobacco, alcohol, weapons, gambling, and nuclear power.

Parnassus Equity Income (PRBLX) – Invests in companies that meet its standards of social responsibility. Excludes companies that earn money from alcohol, tobacco, weapons, and nuclear energy.

Pax World Funds – Various funds that invest in companies that meet the fund’s standards regarding the environment, workers’ rights, and the quality of life. Companies producing weapons are excluded.

Funds on the Web

You can find some listings of socially responsible funds on the Internet. Here are two examples:

http://dir.yahoo.com/Business_and_Economy/Shopping_and_Services/Financial_Services/Investment_Services/Mutual_Funds/Socially_Responsible_Funds/

<http://www.socialinvest.org/>

“I don’t know about that,” said Crackers.

“Well, look at some of the things companies are doing in response to Hurricane Katrina,” added Queso. “Besides donating millions of dollars, some are providing free prescription drugs, while others are suspending payments on houses and cars. Some are offering free supplies, such as water and batteries. Many companies are helping employees find temporary housing and jobs. The list goes on and on. Can you imagine companies having this ability to respond if they weren’t strong, profitable companies able to attract investment funds from savers all over the world? Who would then employ all the workers who lost their jobs in the hurricane?”

“I guess social responsibility means different things to different investors,” said Crackers. “But I’m still going to find a fund that suits me.”

Write Now

Pick one of the following and write a paragraph to explain your answer.

Did Queso and Crackers agree on a definition of companies’ social responsibility? How would you define the term?

Would you expect the returns of the funds in the list above to be higher or lower than those of other mutual funds?