Episode 136: Personal Values Investing – Understanding and Using ESG Investments in Your Portfolio

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SPEAKERS
Rob Cordeau, Bob French

Bob French 00:00
The purpose of retire with style is to help you discover the retirement income plan that is right for you. The first step is to discover your retirement income personality. Start by going to risaprofile.com/style and sign up to take the industry's first financial personality tool for retirement planning. I'd buy Alex skipping out, but Wade, well, I guess it's the Rob and Bob Show today. I'm Bob French here with retire with style. This week, I've got Rob cordo here with me, one of the advisors at McLean Asset Management and frequent guests on the show. As you probably have noticed Alex and Wade are playing hooky, you know, they apparently decide, hey, it's, it's pretty nice out. We're gonna take a vacation. And then they just decided to to leave it to the two guys from New England here to to pick up the slack. But that does mean we get to talk about something that I think is really, really interesting from an investment standpoint. We're going to talk about kind of ESG investing, investing for your personal values, however you want to phrase this. But, you know, it's something that we're seeing more and more questions about. You know, Rob is seeing more and more people, more of his clients, asking about it, and it's just something that you know is just kind of out there a lot more than it was, say, five years ago. So it's something that we really want to spend a little bit of time digging in and figuring out what's going on here and if it's useful for you. And frankly, what does that actually mean in this context? So Rob, why don't I kind of kick it off to you. I keep saying, ESG, what does that mean?

Rob Cordeau 02:13
So the acronym is ESG, environmental, social and governance, and governance, specifically in the context of corporate government, governance of their own company. But we sort of view it a little more broadly. Years ago, it used to be referred to as Sri, socially responsible investing. So it really encompasses anything that allows a person to align their investment portfolio with their beliefs and core values. So maybe it's religious beliefs, maybe it's beliefs about the environment and making sure things are more sustainable. Maybe it's about gender equality or diversity or so, it's anything that's important to you from a values perspective, and then basically parlaying

that into your portfolio, making sure your your put your you put your money where your mouth is so to speak, right? Our beliefs match up with how we do

Bob French 03:20
okay? And, you know, one of the big things as I, I didn't allude to, I said, you know, we're seeing more and more questions about it, and it's certainly something we're seeing more and more in the financial press. But, you know, kind of, give me a, give me a reality check on this. You know, how common, how many people actually are doing this? Is this just something where it's the financial press is talking about it, or is this something that's that's really out there and really driving a lot of people's portfolios?

Rob Cordeau 03:53
Yeah, it's a great question. It has been on the upswing for the past couple of decades, really, we've seen it. Of course, this is a smaller data set looking at one practice, but in our in our practice, anecdotally, I would say it's roughly about 10% of our client base has questions about it, wants to learn more about it. And I would say about half of those actually implement something that incorporates ESG, Sri, so somewhere around 5% I think that is a little less than what statistics show the typical American investor. What you know, what percentage of American investors are interested in it? I read a statistic recently in North America, 18% about one in five people feel it's important. Want to prioritize their values. Which kind of trails behind Europe? Europe is up there close to a third of investors. That's important to them, Japan and over in the east, it's more like 23 25% I think so. So North America, I think, is a little bit lower, but still, that's about one in five people. And of course, those numbers skew a little more to younger folks. So it might not be so unusual that with our practice, only about 10% ask, because our practice skews a lot more to older, pre retirees and retirees. So I don't think we're too far off from the

Bob French 05:25
Yeah. And one thing I do want to kind of ask a little bit about is, you know, there's this perception that ESG investing is, you know, it's liberal investing. It's people who, you know, it's about, you know, environmentalism, it's about, you know, diversity and affirmative action and all that type of stuff. You know, is that true? Is that something that you're seeing

Rob Cordeau 05:48
good question. You know, we find people on all parts of the political spectrum interested in this. You and I were chatting about it, how socially responsible investing years ago, got its start really religiously. It was about religious groups and basically taking and aligning those beliefs with an investment portfolio. So we do have plenty of clients who utilize screens that are more biblically based or more based on their religious beliefs. And sometimes there's a difference. Sometimes those clients also have an interest in the environmental and sustainable side, and sometimes they don't. So I don't know the political ideology, whether someone's on the right or the left means much. I think everybody has got values and beliefs that are important to them. It's just a certain segment of the population that wants to implement that into their portfolio.

Bob French 06:48
Yeah, and I'll just throw out there I get, I get bombarded by mutual fund companies emailing me about new funds and things like that. There are a large number of explicitly right wing funds. You know, they may not love being labeled as ESG, but they are ESG. They're very much on

that s that social govern, or social kind of belief, social values side of things, you know. So it's really, you know, it's a pretty broad label. It's really just something saying, hey, I want to invest in a way that, you know, either doesn't violate my personal beliefs, or, you know, kind of leans into my personal beliefs, which I think is actually kind of a good segue here into, you know, how does ESG investing actually work? How do they how do they implement, you know, whatever they're trying to do, and what are they trying to do?

Rob Cordeau 07:50
Yeah, you know, the way you put it was really nice, the leaning into someone's beliefs. I break it down into either adding or subtracting, right? We are either adding to the market. Maybe we're overweighting certain stocks or industries or sectors. Maybe that they feel is going to make the world a better place, right? So we want to have an impact, so we're overweighting the subtracting might be done with screening out. Maybe we're saying, I don't want to have exposure to, you know, tobacco, alcohol, weapons, you know, whatever the particular category is that that you want to exclude. So those have two quite different ways of going about it, right? Your portfolio is going to In either case, your portfolio is going to look different from the market, but we're either adding or subtracting to get there.

Bob French 08:46
Yeah, and, you know, I think one of the ones that you know is worth kind of taking a little bit of a look at is, you know, when we are doing those screens, either, you know, either adding into or, I should say, overweighting certain things that we like, or underweighting or excluding certain things we don't like. Now, your point there, I think, is a really, really important one that we're moving away from the market. You know, we are making an active choice to say, I'm not going to be using the market portfolio for what, what we think are good reasons, or what you think is a good reason, but, but making that very specific statement that we're moving away from that market portfolio is a really, really important one, you know, because it really impacts or bears on, you know, rates of return and volatility here, you know. So do you want to talk a little bit about that?

Rob Cordeau 09:52
Yeah, absolutely it. You're right. We know a portfolio that incorporates Sri ESG is going to look to. Different than the market, and we try to do a very thorough job explaining to the clients that if we construct a portfolio, it looks different from the market, your returns are going to look different than market returns, right? So I think that's important in terms of transparency, to get that out there. And for then, I think that's why roughly half of our clients who ask about it decide not to implement it. So I think a lot of clients say, Well, you know, this is important to me, these beliefs, these these values, are important once they find out that there's going to be an impact to performance like, well, I can still accomplish those things in my life, maybe with my donations to charity, maybe with my time I spend volunteering, maybe the way I purchase goods and services. They can vote in that way, so to speak, rather than with their investment dollars. Whereas I would say the other half of clients who ask about it? Say, Yeah, I'm okay taking a haircut on my performance. In fact, I prefer to have a portfolio that matches my beliefs, and if the cost of that is a slight reduction in performance, I'm okay with that. So we definitely have that. We make sure we have that conversation early on.

Bob French 11:21

Yeah, and you said something really, really important there that, you know, there's a lot of people out there looking at ESG and saying, you know, it will lead to better returns, because these are better companies, or whatever the logic might happen to be. I'm not sure I buy that. You know, it's, it's one of those where, you know, if we start from, hey, the market is the most diversified portfolio out there. If we move away from the market in either direction, you know, we are reducing the level of diversification in our portfolio. So there's, at least, on a theoretical level, on expected return level, as you said, some sort of haircut there, we have to expect least a slightly lower expected return. And that needs to be a positive decision. If that trade offs right for you and for a lot of people, it is, you know, for a lot of people it's not. And you know what you said earlier, is something that you know. This is an idea I heard from you, I don't know, a few years back now, kind of the truing up your portfolio. I think you called it back then, where, you know, you invest. Normally, you see where, you know, an ESG type of portfolio would have done, and then you go out and donate the difference, assuming that your portfolio did better than the ESG you donate the difference to something you care about. And I'm bringing this up, one, because I think it's a cool idea, but two because I want to get into the ideas around the effects of ESG investing, because even aside from the investments standpoint, there's a lot of talk about either helping the good companies or hurting the bad companies. And this is something that, you know, I think there we should be spending a little bit of time talking through here. Yeah,

Rob Cordeau 13:18
great question. We do have occasionally, some clients who who say, Look, I don't want to invest in this sector or this industry, because I don't want to, you know, be contributing to their profits. And I can tell from the conversation that they're thinking, it's more like a boycott, right? That by holding back from investing in this sector, this industry, or this company, that they're going to punish them in some way, that it's more like the old school boycott. And we try to explain, explain that it doesn't quite work like that, right? First of all, we're buying and selling shares on a secondary market, so this isn't going right to their immediate bottom line. We also talk about how our portfolios, as large as they might be to us, are relatively tiny on a fraction of what these the market capitalization is for these companies. So we sort of talk about how this should be something that you want to do internally. It's going to have for all intents and purposes, can have zero effect on the companies or the sectors that you're concerned about. But we do find some clients who say, Look, I just my conscience wouldn't feel good if I was owning shares, equity shares in, you know, a company that's involved in making missiles or tobacco or gambling, or whatever the IS, and for that usage, this is a great way to do it right because, because you're not going to hold those shares, great, we've accomplished our goal. We just try to make it clear that you're not going to change the you're not going to move the needle in making the world. A better place. You're not going to influence the CEO or the CFO or the company to do something different with your small amount of dollars.

Bob French 15:08
Yeah, and, you know, I kind of to lean in on that, you know, it works both ways, you know? I mean, it's to kind of bring it to the investment theory side of things. It's what's called a cost of capital argument. So the idea being, if someone is, you know, if enough people, if everyone agreed this was a bad company and they want nothing to do with them.

Rob Cordeau 15:36
That being morally bad, morally

Bob French 15:39
bad. I want, I do not want to profit from this company and what they're doing in the slightest of my portfolio. Yes, and everyone was going to hold back, which, as you pointed out, probably not the best assumption to make. But let's say, let's say it does, the stock price would come plummeting down. There probably be at some price. Enough people would say, okay, maybe my morals aren't quite that absolute. But what they would find is, in the immediate term, it might not hurt the company, you know, in their operations, but when it comes time for that company to raise more money, when they want to, you know, sell stock. It's gonna be a lot harder for them, you know, they'd have to sell a lot more to raise a certain amount of money. You know, on the flip side, if everyone loves this company and they want to overweight it, they want to buy more well, and that would just mean that the market now that company becomes overweight, or that's now their new weight, I guess is the right way to say that, but it would effectively mean it's easier for that company to raise money when that time comes for them. So it's not, as Rob said, you know, it's not a boycott, or it's not a not sure what the opposite of a boycott is, but it's, you know, it's not something where it's going to be that direct harm or direct benefit to the company. It's a longer term type of thing. But even there, you know, it's something that, you know, there's, there's going to be, I want to say, wiggle room. That's not quite right, but it's going to be a much more indirect type of effect. You know, economics happens on the margin, but, but your margin is real tiny on this type of thing. So it really does need to be that internal piece. It needs to, you know, if we're going to be excluding companies, or if you're going to be excluding companies from your portfolio, needs to be something where maybe that's keeping you up at night, that that that, say Exxon is in your portfolio, and that's one of the big ones that always pops up. But, you know, it should, it should eat at you a little bit if you want to exclude it, or, you know, if you're someone who really wants to support solar power, you know, just pick another company or another sector or whatever it might happen to be, you know, that should be something internal, that should be kind of something that that you want to make a positive choice on. So I think I really wanted to drive that point home, because so many people lean into, you know, these effects on companies, and, you know, there's just no evidence that it's actually happening. You know, it's one of those that, in theory, yes, if everyone agreed, that is exactly what would happen, right? Not everyone

Rob Cordeau 18:44
agrees that's just it. And think about how subjective these things are. This is morals and values and beliefs. I mean that they run the gamut, right? So the the chances that 100% of the investing population is all going to grieve that this one company is morally ethically wrong is slim to none, and even if 90% of the investing public believed that, and the other 10% said, you know, this is a really profitable company, and everybody else has driven the price down, those quote, less ethical, unquote investors would scoop up some bargains, and they would actually benefit with higher performance, rate of return as a result. So I think you hit the nail on the head. This has to be an internal thing with the investor that I'm going to be more comfortable investing in this way, I know that I have equity ownership in companies that align with my beliefs, and we talked about the adding and subtracting, right screening versus overweighting. Sometimes it's both. You know, let's take environmental sustainable. You. Somebody might decide, hey, I want to exclude these companies that are involved with fossil fuels, and I want to overweight these companies that are more focused on clean energy or renewable or alternative forms of energy. So it can be, in some cases, both adding and subtracting on the very same topic, the very same factor, I should say. So it's interesting how we construct it, but I think you summed it up. Well, no

matter how we build it, it's going to look different from a globally diversified market portfolio. And of course, our whole investment philosophy is centered on globally diversified portfolios. So when a client comes and explains their concerns or their desire to construct something like this, we're okay. We're happy to help them construct it. We just let them know that it's going to look different than our typical portfolios, and it will perform differently absolutely, you know, I should have mentioned earlier about the performance piece. We've been watching this for about 1213, years. We've had model portfolios that look at more of an Sri ESG focus, and one that's more globally diversified, and in our model, that's, that's ESG focused. It has probably 25% less securities in it. So it's, it's a pretty wide swath of the market that gets removed and screened out, depending on you know, what the client's particular concerns are. There's no way we can get that performance to look like a market portfolio. It just won't. So in our experience, it seems to range between because I know people are thinking this, what kind of underperformance you're talking about. In our experience, it's been about 25 basis points to 100 basis points per year, so a quarter of a percentage point to one full percentage point under performance per year. So if the market is doing 7% you can expect to do anywhere between six and 6.75 right? That's sort of and it varies. It's, you know, some occasionally, we'll have a year where our ESG will outperform our non ESG. But more often than not, the ESG model underperforms, which is exactly what we expected when we hold 20 projects less security,

Bob French 22:34
yeah, no, absolutely. And you know, it's definitely one where, you know, again, you just need to know that going in, how I normally talk about it, when I hear this question on the retirement researcher side, is I position it as kind of a diverse, I'm sorry, a discipline type of thing. You know, the worst thing you as an investor can do is is panic and sell when the market's going down, if excluding the bad companies or overweighting the good companies makes you feel better about your portfolio and what you're doing and that will help you stay disciplined. Yeah, okay, we don't want to give up that 1% a year, whatever the number happens to be, no, that's, that's a big number. No one wants to do that. But if that allows you to stay disciplined through, you know the ugly periods we know are going to be coming at some point over, you know your investment life cycle, that that makes up for it. That's, I mean, I don't have the numbers on that. Obviously I can't have the numbers on it, but that makes up for it. That's a big, big deal. And if that is something that resonates with you, it's worth thinking about. If you're looking for more personal advice, take a look at this episode's sponsor, McLean asset management. You can learn more at McLean am.com that's m, c, L, E, A, n, a, m.com McLean Asset Management is there to help you on your path to the retirement that you deserve. And don't forget to check the show notes to get your free ebook on retirement income planning.

Rob Cordeau 24:24
Yeah, and, you know, we try to figure that out early on in the relationship. So we'll have conversations with the client. We call it a discovery process, right? We're having several meetings where we're really getting to know what's important to the client, what makes them tick. We usually implement, we'll have them take the RESA and so they can, we can get a good sense of how do they view retirement income, and find out a little bit about their risk tolerance and what are their preferences. So we're finding out all of that about them, and in the midst of that, we're. Also having a dialog with them about what's important to them in their daily life, like, what do they do for fun, and do they volunteer, and what organizations are they connected with? And so we're finding out about their family and other professionals they work with. It's the whole big picture. And of course, of that dialog, we end up uncovering if there are certain social

or religious or environmental or other beliefs that are really important. And then we start probing a bit as to whether they want to implement any of that in their portfolio. And then we talk about, what would the effect of that be? Yeah,

Bob French 25:36
and one thing I want to call out, because we've been treating this as you know, something that maybe not straightforward isn't probably the right word, but you know, conceptually pretty simple that, you know, there are good companies and there are bad companies. It's not that straightforward. You know, a good example right now is, is Tesla. You know, if you think about everyone's reaction to Tesla as a company, say, six years ago versus right now. Everyone who didn't like Tesla six years ago loves Tesla right now, and everyone who loved Tesla back then does not like Tesla right now. You know, things like that play in but, but more seriously. I mean, the a lot of a lot of effort in ESG comes down to trying to figure out, you know, what companies are actually doing. You know what? You know, how much revenue does a company need to have in that bad thing before it hits that screen. You know, there's a lot of companies that have government contracts that maybe incidentally, maybe not incidentally, kind of go towards the Defense Department. You know, there is a something that is completely benign, that might be part of some weapon system at some point. Does that classify them as a arms manufacturer? Well, that's half the company's revenue. Maybe, you know, there's a lot of this uncertainty. There's a lot of this gray area that, you know, I'm not sure there's any way around it, but the world is messy. I guess it's really, what I'm trying to say is as original and shocking a statement is that. But, you know, it's something that we want to be thinking about in in this context here, that, you know, the the screens that we're going to be doing are never gonna be perfect. You know, one thing that you know, and I want to kind of use this to transition into, kind of the implementation is, clearly, I didn't quite think how this transition is gonna work, but, you know, there's, there's some new ways that people are doing the implementation here with ESG. So, so Rob, I want to kind of ask, you know, when we do, or when you do have that client who is looking to use ESG to to build their portfolio around it. How do you, how do you do that?

Rob Cordeau 28:15
Yeah, I think you're absolutely right. It's, it's a very muddy science. It's, I mean, you could take any number of things. You could take a company that derives a small piece of its small percentage of its profits, take your local grocery store, right? So mostly food, but maybe some cigarettes as well. Are you going to boycott them? So that's different, right? It's and it's different from one investor to the next. How important that is. I sometimes use the analogy of being like a food allergy. You know, you go into a restaurant, you might order something that's gluten free, and your server says, is that because of an allergy, or is that just a preference, right? And and that's important to the restaurant, right? Because if it's an allergy, they're going to prepare it differently in a different section of the you know, the grill, different tools. And it's kind of the same thing with our clients. We talk with them, we find out, do they have an allergy to this particular sector or industry or company. You know, do they absolutely not want any exposure to that in their portfolio? If so, we're going to use different tools. We're going to use different funds. We're going to construct it differently. Or is it more just a preference? Hey, these things are important to me. I don't know whether I want to implement that my portfolio. Let's talk about it. Then it's more like somebody ordering the gluten free item as a preference rather than Yeah, so, but I know that's kind of off topic from your question. So you're like, I can give a really long answer to a short question, Bob, but Oh. That's great. The the question about how we implement it. You know, we can do it one of and I sort of group it into three different areas. The

first is, we can find funds and ETFs that come as close as possible to matching the client's goals and values. Again, it's very nuanced, so we try to find out with each client what those concerns are, and then come up with a portfolio that matches. The second approach is to utilize a separately managed account, an SMA, other acronym, SMAs have really been useful in creating portfolios that screen out sectors and indexes. It didn't used to be the case. Years ago, SMAs were more expensive. The cost to transact in stocks was more expensive, right? To hold an SMA portfolio that had several 100 holdings in and if you were paying 2040, 50, $80 a trade, as it was decades ago, it was really cost prohibitive. But nowadays, with stocks trading at custodians for free, sma costs have driven way down. Yeah, and you can put together an SMA for 25 basis points, roughly where we can screen out whatever specific stock, specific holdings or sectors and and get very precise with it. And so SMAs have been a great way for us to put together the screens we want, or the client wants, and be very specific about it. The third way is what you made reference to earlier. If somebody doesn't have the Food Allergy approach, right? It's just a preference, and we tell them about the expected lower rate of return, and that doesn't sit well with them. We've looked at having clients invest in a globally diversified portfolio according to the methodology that we use at our firm, and then they take that 25 basis points, or 50 basis points, or whatever that expected higher rate of return is from a non ESG portfolio, and they donate that, and they put that into the charities that are going to have the effect that they want it to. So they can lean into their beliefs. They can spend the money, so to speak, in a direct way. They can have an impact on the world, but they can hopefully get a higher expected rate of return on their portfolio. So first, for a small segment of our clients, that works really well. For others that have the allergy approach, Nope, it's not going to help me to invest in a company that I find offensive so I can make more money and make donations. For some people, that just doesn't work, but for some it's a really interesting method of accomplishing what the client

Bob French 33:02
wants. Absolutely no and that, I think that one, I really, really like that one, because one of the big things is it does have that positive impact. You know, if you can stand being invested in Exxon or, you know, pick your boogeyman type of company, you know that can have a much more direct impact because, you know, Rob, as we were just talking about a little while ago, you know, you're really not having much of a direct impact on these companies, or really on on much of anything. You to a certain extent, you're basically just giving up these extra returns which are going to be harvested by someone who is more comfortable holding those companies, whereas this kind of approach means that you actually are giving that money to a chosen organization or set of organizations doing something specific, you know, which I think is something that is pretty powerful and can be a really, really great way of handling some of this type of stuff. So I, I've always been a real big fan of that approach.

Rob Cordeau 34:15
Yeah, it works well with certain clients. And, you know, it's more complicated, frankly, for us together an ESG or Sri portfolio, right? It's more it's more work up front, it's more work. This is Psychology work here, going trying to figure out how important these things are to clients, and then trying to match up the client's views and beliefs with a product or a tool, an investment that's going to fit and challenging. You know, I'll give you an example with Sri. We have some Sri funds that take a very broad approach, and they say, to appeal to as many as possible. They say, Well, we're just going to exclude a whole ton of fact. Errors so that we can capture everybody. So they typically, they might get rid of tobacco, gambling, all types of weapons, pornography, labor infractions and anything related to something that religiously connected to

healthcare would be offensive to somebody, right? So maybe it's abortion and contraception, birth control some sort. So the problem we found is with the healthcare piece that particular screen lops out almost the entire healthcare sector, right? Every pharmaceutical company and a lot of so that makes up a pretty big piece of the economy. So we found our clients who adopt one of those funds or ETFs. Sometimes they say, Well, I like to exclude all those other things, but I don't have a problem with birth control. So, you know, so we find ourselves trying to add back certain sectors, right? We bring in healthcare sector, ETF to prior to it's it's challenging, and it's time for us. We it's not really efficient for us as a firm, but it's important to the clients. And if it's important to the clients, we want to make sure we build a portfolio that they can sleep at night with and their conscience is clean with, and that's why we do it absolutely.

Bob French 36:23
And that kind of brings up, you know, you brought up the the SMA as a separately managed accounts, where you do have a lot more of control there. You know, a lot of times they're starting to call it now, direct indexing. And, you know, as you mentioned in in recent years, call it the past two or three years, we've seen a drastic, I mean, I think it's fair to say revolution in terms of the pricing of these things. You know, it used to be just for rich people to do an SMA for, you know, whether it's ESG type of stuff, maybe tax loss, harvesting, whatever it might happen to be. Now I'm going to say it's unfortunately, it's not for everyone. You still need to have a reasonable PC or portfolio that you're looking to invest here in the ROB. I think it's fair to say hundreds of 1000s of dollars, but it's not millions, like it used to be, you know. So that's definitely something that is is worth exploring. If this is something that's appealing to you, because it does allow you to get really specific in terms of, hey, here are the things I don't like. Here are the things that I do like and really customize the approach to what makes sense for you. Yeah,

Rob Cordeau 37:47
and you know the SMAS, you're absolutely right. It used to be most SMAs had a $500,000 minimum. So to incorporate that into your portfolio as a piece, you know, you really needed kind of 1.5 2 million or above before having an SMA for one portion made sense, and then the costs were higher. It wasn't surprising to see, you know, half a point, you'd be paying half a percentage point to some manager. But now we can put together an SMA piece that's 100 or $200,000 we can do a much smaller piece. And like I said, we can get them for sometimes 2030, basis points that all of a sudden, has made this open to the masses. And it's it's also neat in that, you know, we work with one company that, in their application for the SMA, they ask a series of questions about, what sort of areas would you like us to screen out, if any? Because sometimes they construct an SMA for tax loss harvesting, but sometimes it's for this, for Sri ESG reasons. And there's a whole list. They have a prefab list of you can check off sectors, and if you check off that sector, we'll screen out that entire one. Then there's sort of a customized section. Are there any companies that you specifically want to exclude or include,

Bob French 39:12
as I say, or from that sector you excluded? We do like this company

Rob Cordeau 39:16
Exactly. So we've had clients, really, in a way, it's like they're collaborating with the portfolio manager to construct the portfolio that they want. Or we've had clients who maybe they have stock options from an employer that they've worked for. So their portfolio is overweighted in a particular company. They might exclude that company because they've already got plenty of

exposure to that company elsewhere. And so they can construct all the screens they want, include or exclude whatever specific companies they want, and they can do it for about 25 basis points a year. It's just so cost effective now that that that is our that's our ESG model of preference. If. We can do it if we can get more, that's, that's the one we prefer to do it, because we can get such precise customization that can really, we can come as close as possible to matching your values up with a portfolio. Okay,

Bob French 40:13
um, yeah, no, I think that's, that's kind of a good summation there. So what I want to kind of end on is is really thinking about, if you are some, or if someone listening here is thinking about ESG investing, trying to decide, there's going to be some people who just know, this is what I want to do. This is not what I want to do. If they're kind of on that fence, how should they start thinking through that decision? How should they start thinking through does? Does this make sense for me or not?

Rob Cordeau 40:48
Yeah, you know, I go to what seems to be the sort of dividing point, the fork in the road for a lot of our clients, which is the performance question. When we have that discussion, that seems to be the point that polarized polarizes people one direction or the other. If you are comfortable with your portfolio returns being lower than an overall global market portfolio and your beliefs are that important to you, then have that discussion with your advisor. Start looking into whether or not an ESG, Sri, values based, impact based, whatever you want to call it, whether that portfolio is a good fit for you. If, when you get to that question and you find out that if I make my portfolio look a little bit more like my beliefs, that means I'm creating a different than market portfolio, and therefore lower than expected rate of return. Then in a case like that, if that bothers you, then maybe this isn't for you. Maybe another approach, like the alternative approach we talked about, taking that excess and throwing it into annual donations to charities. I think that tends to be the most common differentiator. If someone says, Hey, it would bother me to be invested in these companies and I'm okay earning a lower expected rate of return, then take a good close look at a portfolio like this. If you say, Yep, there's no way I want to give up returns. If I can maximize my returns, that's what I want to do. And then I'll make my own decisions about donations than that. So I think I would start with that question. I wouldn't I'd set aside anything about political ideologies. I think that's irrelevant. I think it's what values and beliefs are important to you, and would you like to incorporate those in your portfolio? And if you're okay doing it and taking a performance hit to accomplish it, then that's your that's your decision.

Bob French 42:56
Okay, well, I think that's, that's a good way to kind of end this. So thank you so much for your time here, Rob. I've I've really enjoyed it this so, you know, hopefully, hopefully everyone else here enjoyed it as well, but some really, really great stuff. So thank you, Rob and thank you everyone. Have a great day. Take care. Bye. Now, Wade and Alex are both principals of McLean Asset Management and retirement researcher. Both are SEC registered investment advisors located in Tysons, Virginia. The opinions expressed in this program are for general informational and educational purposes only, and are not intended to provide specific advice or recommendations for any individual or on any specific securities to determine which investments may be appropriate for you consult your financial advisor. All investing comes with risk, including Risk of Loss past performance does not guarantee future results.