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Does green investing pay as well as conventional investing?
My Money Is Greener Than Your Money

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Socially responsible investing is now a major Wall Street trend. But the real question is this: Can you make as much dough when you're being virtuous?

So you can't stand seeing your hard-earned money flow into the coffers of big oil. And you're especially turned off by the thought of profiting from its misdeeds. But when it comes to investing, can you really afford to put your money where your mouth is? Can you afford to invest with a clear conscience? Matching your investments to your personal values is certainly a thorny matter. Your ability to pay for a child's college education or to retire comfortably may hinge on the choices you make.

Socially responsible mutual funds have been around for several decades as a vehicle for ethical investing, but their returns haven't always matched those of the stock market as a whole. Nevertheless, the popularity of "values driven" investing has surged in recent years, from a lone fund called Pax World in 1971 to at least 60 funds today -- including some that have consistently posted healthy returns, helping the field to shed its weak reputation.

The Social Investment Forum, an association of professional investors and financial institutions, defines the category broadly to include the financial arms of churches and other religious organizations; funds that do minimal screening and exclude just one type of business (tobacco, for example); and conventional funds that have few or no limits on the type of stock they own but wield their power as shareholders to promote a particular social agenda. The forum estimates that 9 percent of all investments are now made with social values in mind. It counts 151 socially responsible mutual funds with assets of more than $148 billion, up from $111 billion in 2001. Morningstar, the go-to source for ratings and research on conventional mutual funds, is choosier, counting 60 funds with $28 billion under management -- a smaller number, but double what it was a decade ago.

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The concept of socially responsible investing (SRI) first gained footing on Wall Street in the 1970s, when many Americans were being forced into personal investing by the erosion of the pension system. Some investors didn't want to own stock in a company whose policies they objected to, while others didn't want their money going to support the war in Vietnam, for example. Today half of all American households own stock -- 90 percent through mutual funds.

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Theory aside, the socially responsible investing phenomenon has grown large enough to offer investors nearly all of the options present within the larger universe of mutual funds, from actively managed funds run by professional investors whose stock picking focuses on, for instance, small companies with fast growth and high risk, to funds heavily weighted in international stocks, to funds that have no manager and invest in an established set of companies -- an index -- often across a single sector of the economy, such as telecommunications.

Indexing is like investing on autopilot: There's no stock picker to pay and no research fees to cover, so the portion of your investment that goes to operating costs is minimal. The Financial Times and London Stock Exchange (FTSE, pronounced "footsy"), to cite one example, maintains the FTSE4Good index, a list of socially responsible companies screened by a complex set of criteria ranging from environmental sustainability to labor standards within a company's supply chain. The mutual fund giant Vanguard, for instance, buys stock in companies in the index and saves investors about 1 percent a year in management costs; that doesn't sound like much, but it can add up. Similarly, the PowerShares WilderHill Clean Energy Fund is an exchange-traded fund, which means it operates as a mutual fund does -- by pooling and investing many people's money -- but individual investors can buy and sell shares as often as they like, as if the fund were a stock. It invests primarily in smaller companies that are developing products to generate energy from the sun, wind, waves, tides, hydrogen, or fuel cells.

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Nevertheless, those who turn to SRI funds in hopes of matching their values to their investments stand a good chance of doing well by their bank accounts, too, if they choose wisely and apply the same discipline smart investors use to pick conventional funds. Look for so-called no-load funds that have a low expense ratio (minimal management fees) and no sales charges, and compare long-term results, not just what happened last year. And while you're at it, cross your fingers for another Internet boom.