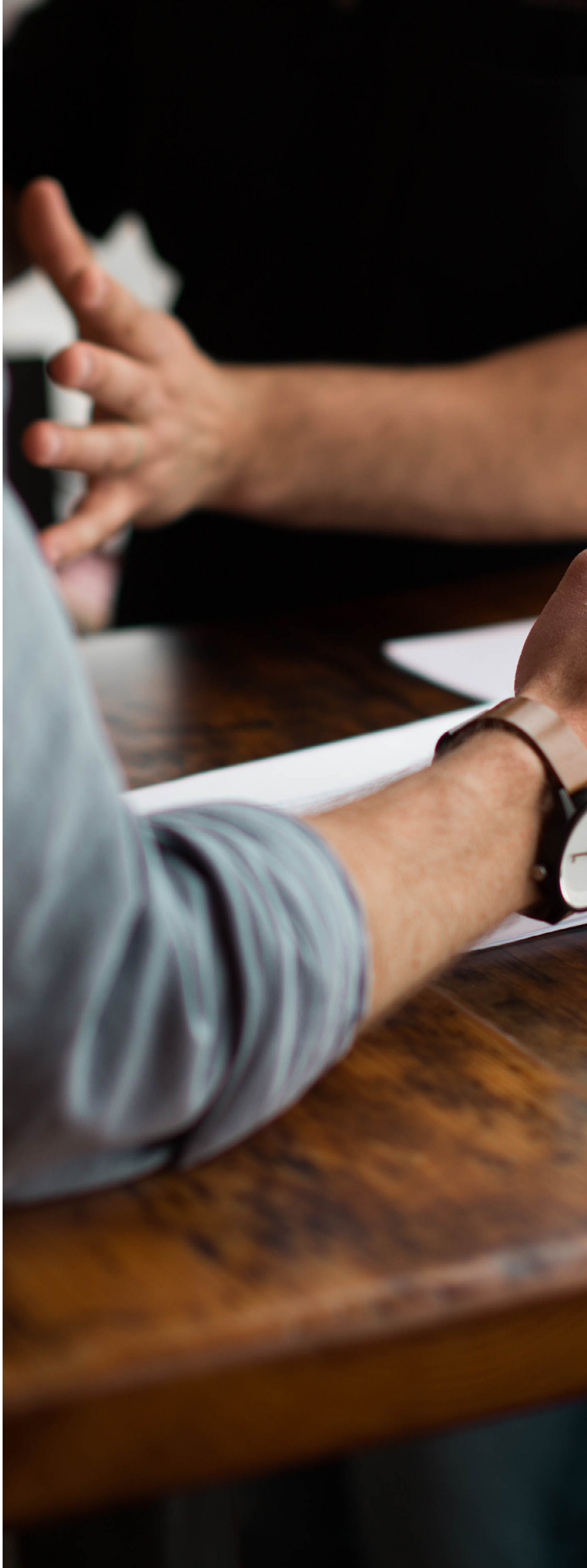


5 Mistakes Advisors Make with Biblically Responsible Investing

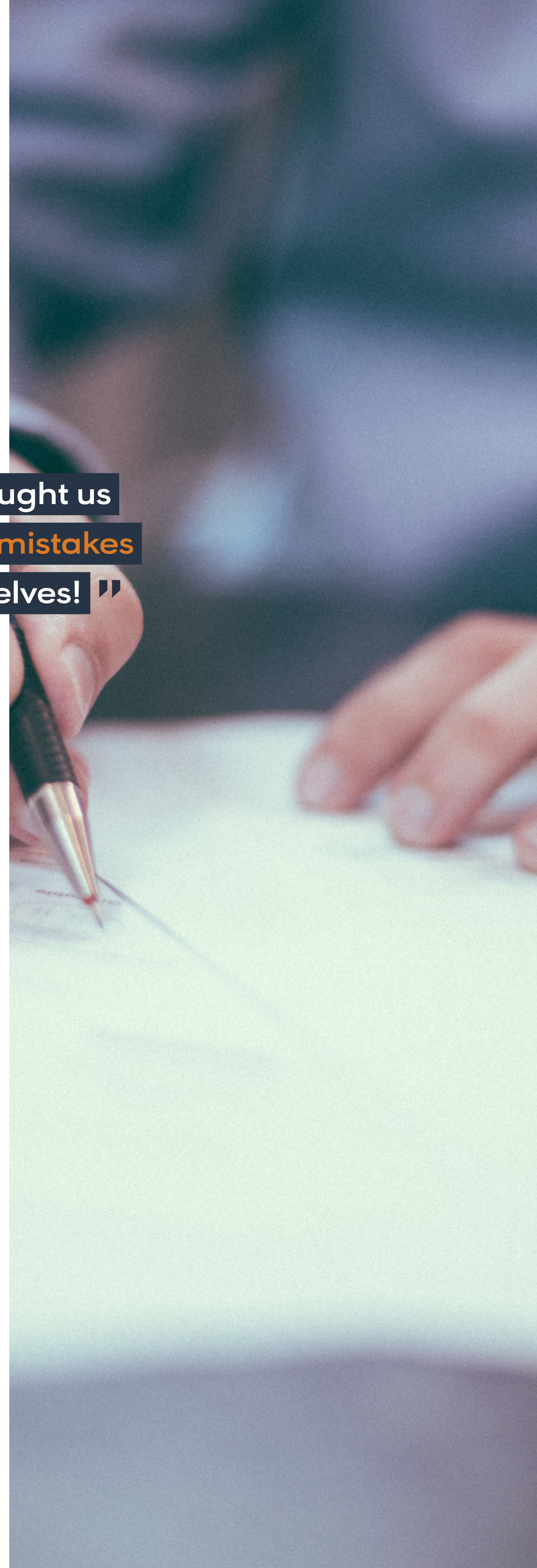
Advisors often struggle with the same handful of mistakes that we made ourselves, and perhaps still make from time to time. In this paper, I have detailed five of the most common mistakes we see advisors making with Biblically Responsible Investing and offer solutions developed from our own successes and failures incurred while building a biblically responsible business.

By **Robert Netzly, CEO, Inspire**

HUMILITY. I am overwhelmed with this feeling everyday as I recount the amazing grace of God displayed in the uncommon and unexpected growth of our company. Being at the helm of one of the fastest growing biblically responsible investing (BRI) firms in the nation was never part of my plan (but that is a story for another day!), nonetheless God has brought us great success with growing a successful business built completely on BRI assets under management.

Perhaps one of the most miraculous things about our firm's success is that it has oftentimes grown despite our best efforts to the contrary; in other words, we have screwed up a lot and yet God has brought us through our mistakes despite ourselves! Of course, the bright side of a mistake is the opportunity to learn from it, which by the grace of God we have. Over the years we have also had the privilege to mentor numerous financial advisors in their transition to a BRI practice. Through those conversations, we have discovered that they often struggled with the same handful of mistakes that we made ourselves, and perhaps still make from time to time. In this paper I have detailed five of the most common mistakes we see advisors making with BRI and offer solutions developed from our own successes and failures incurred while building a BRI business. Let's start with number five and work our way up from there.

> "God has brought us through our mistakes despite ourselves!"



Mistake #5: Compromising on screening

One of the great fears I had when making the transition to BRI, and a fear I see that most other advisors considering a transition to BRI have, is the fear of alienating potential or current clients because of our choice of BRI screens. This is, after all, our livelihood and the thought of limiting potential business sources can be scary. The internal dialogue

> **You see, when you compromise on screening you end up losing any appeal you might have had for investors...**

usually goes something like this,

"If I transition to a BRI practice, what will non-Christian clients and prospects think of me?"

"Will I ever be able to earn the business of someone who does not hold the same values as I do?"

"If non-Christians won't invest with me, will I be able to earn enough income?"

"Is BRI just a fancy way to go out of business?"

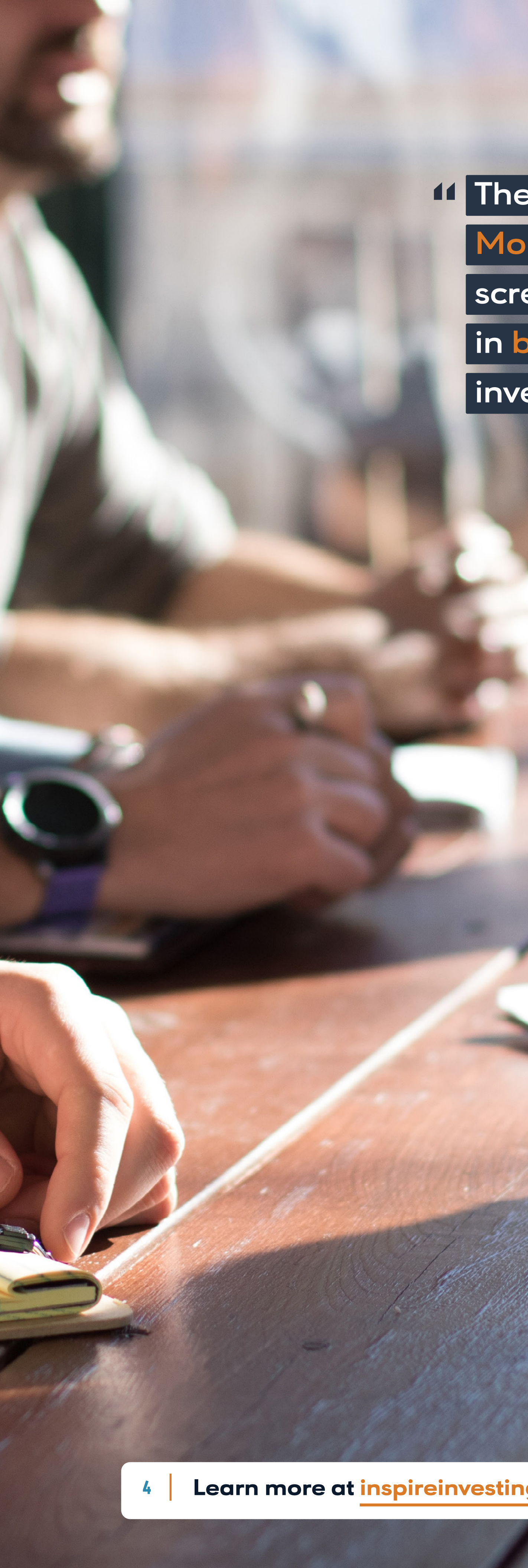
Because of these fears, some advisors are tempted to compromise on their screening parameters to make them more "middle of the road" and leave out certain screens that might be more sensitive or politically incorrect. The intent is that by watering down the screening that you would avoid alienating investors who do not have strong biblical convictions on those values. This idea usually feels very much like a warm, cozy security blanket and provides a certain comfort level with BRI to an advisor concerned about what people will think of him or her. The irony is that this attempt to appeal to more people is the very thing that will bring your worst fears to life and cause you to appeal to no one at all.

You see, when you compromise on screening you end up losing any appeal you might have had for investors with strong biblical convictions because they would never invest in something they considered a "lukewarm" portfolio. And those investors who do not care much about the screening...well, they do not care much about the screening, so it does not provide them a compelling reason to invest with you one way or the other. So, when you compromise on screening you find yourself in a position of not appealing to anybody at all. Not conservatives, not moderates, not liberals. If anything, it would be more beneficial to err on the side of more restrictive screening! Why? Because if there are investors who demand very stringent screens, you will attract them. And the additional screening criterion would be a nonissue to other investors who do not have strong feelings on whatever screen it may be. Let's talk about alcohol, for example.

Personally, I do not have a problem investing in the stock of grocery stores that sell alcohol. But, there are investors out there who have alcoholism in their family, have been hurt by alcohol abuse and want nothing to do with alcohol whatsoever. As an advisor, I would be wise to exclude all exposure to alcohol (even grocery stores that I personally do not have an issue with) so as to serve these investors. And will I be alienating other investors in the process? No! Because for other investors, they do not mind if it is in their portfolio or excluded from their portfolio. For them it is a non-issue. I have never met an investor who specifically demanded exposure to grocery stores that sell alcohol in their portfolio, but I have met investors who required them to be excluded.

The irony is this: More restrictive screening results in broader investor appeal.

I saw this played out with a company that launched a family of faith-based funds several years ago. I was initially very excited when I heard about the launch, but was disappointed to find that their screening left much to be desired. I made a call and spoke with the leadership of the fund, inquiring why the screening was so lax and they said that they wanted to keep the screening on the moderate side so that they would not alienate potential investors by being too



> "The irony is this: More restrictive screening results in broader investor appeal."

conservative. I explained that in adopting moderate screening that they were actually appealing to far less investors and that more restrictive screens actually lead to broader investor appeal, but they respectfully disagreed. A year or so later they were out of business. I would counsel you not to make the same mistake.

Mistake #4: Letting clients direct the screening

A common practice we see among certain advisors is allowing clients to choose which screens they want to utilize in their portfolio, if any at all. I can understand the rationale behind this practice, and certainly am not critical of these advisors' very good intentions; however, I do believe this is a mistake. Advisors who take this approach usually do so because they (and rightly so) do not want to be seen as the "moral police" and fall into legalism by dictating to people what should be important to them, especially in those areas where screening is not black and white (for example, donations to charity verses primary business activity). This intention is very rightly placed! We should in no way position ourselves as the moral police.

However, the truth is that clients are not adequately prepared to direct the details of screening in an informed way. Would you ever ask a client to detail out how much of their portfolio should be in value stocks verses growth stocks? Or how much of a small cap tilt their portfolio should have? No, of course not! If they had good answers to these questions, they would not need you in the first place! Are clients capable of coming up with good answers to these questions given enough time, research and education? Yes, of course...but that's why they hired you! Likewise, clients have not had time or education to make informed decisions on screening, and the answers they would give if asked point blank out of the blue likely are not the same answers they would give if they had the luxury of in-depth education and study on the topic. They are looking to you to advise them on how they should invest – both financially and morally.

Additionally, BRI is a stewardship issue for the *advisor* as well as the investor. Not only are investors responsible and accountable for what stocks they purchase with the money God has placed in their care, financial advisors are also responsible and accountable for the influence God has given them, and the transactions they agree to take part in. An accomplice is guilty, as is the master-mind. Think of it this way: Neglecting our influence and allowing a client to direct the screening process is like an investor putting their money with a firm, knowing full well they were money laundering, and then saying that they are not responsible for what that money manager did with their funds...after all, it was the money manager who made the decision to launder money, not them! This is obviously a foolish way of thinking about stewardship, and any judge worth his or her salt would agree. We cannot abdicate our stewardship responsibility, whether over money or influence, and even if we could, doing so would in itself be bad stewardship.

> **"BRI is a stewardship issue for the advisor as well as the investor."**

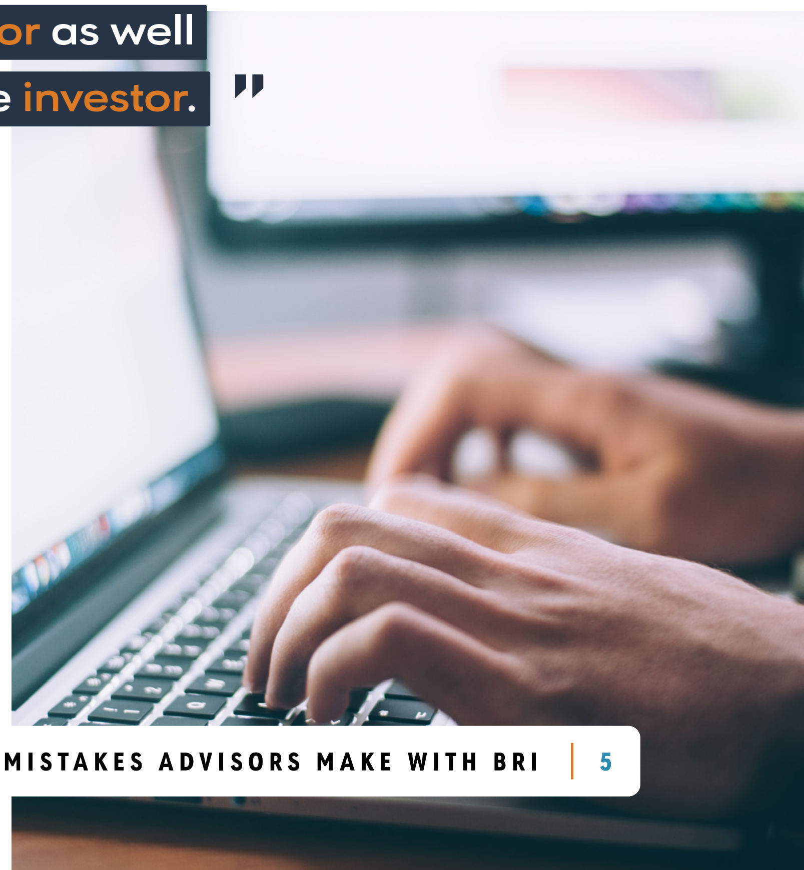
In fact, this is exactly what Pontius Pilate attempted to do when he was faced with the decision of what to do with Jesus: set him free or crucify him? Pilate knew Jesus was innocent, but he feared the crowds and so he allowed the crowds to dictate what happened to Jesus, and then attempted to wash his hands of the decision to crucify him,

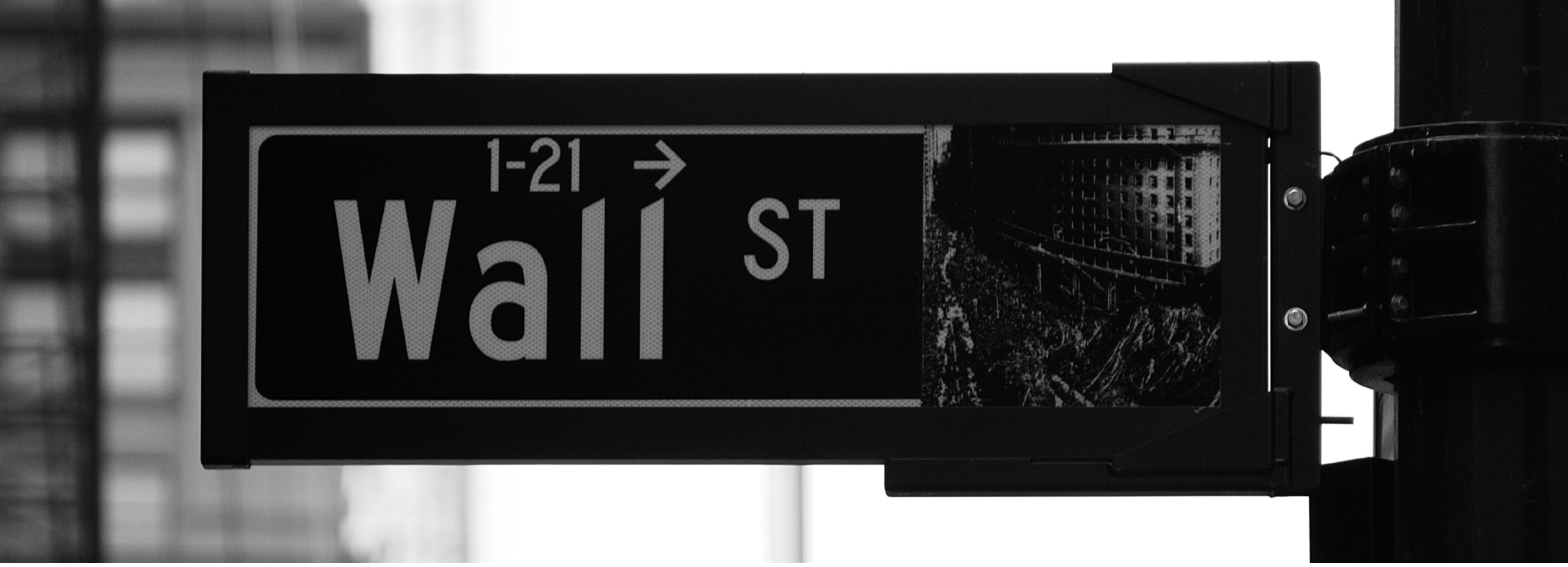
> 22 'What shall I do, then, with Jesus who is called the Messiah?' Pilate asked. They all answered, 'Crucify him!' 23 'Why? What crime has he committed?' asked Pilate. But they shouted all the louder, 'Crucify him!' 24 When Pilate saw that he was getting nowhere, but that instead an uproar was starting, he took water and washed his hands in front of the crowd. 'I am innocent of this man's blood,' he said. 'It is your responsibility!'"
> (Matthew 27:22-24)

But later in scripture Pilate is still held responsible for the crucifixion of Christ. He is not given a free pass just because he abdicated his decision to the crowds,

> "27 Indeed Herod and Pontius Pilate met together with the Gentiles and the people of Israel in this city to conspire against your holy servant Jesus, whom you anointed. 28 They did what your power and will had decided beforehand should happen." (Acts 4:27-28)

God has placed you in a position of influence and leadership in your clients' life and He expects you to use that influence for His glory. Do not fall into the error of Pilate; be a blessing to your clients and give God-honoring advice, both





financially and morally.

Mistake #3: Using guilt and shame instead of grace and truth

It can be easy to get carried away about things we are passionate about, and sometimes that passion can come through our communication in ways we do not intend.

Importantly, when sharing BRI, we must always be careful to communicate with grace and truth, not guilt and shame.

When an investor first discovers the truth that they have been invested in things like abortion, pornography and other immoral businesses, they typically feel a certain level of internal conviction. (I know I did!) As such, these investors are in a rather vulnerable place and in that moment can be acutely sensitive. A careless phrase, or a certain tone of voice can easily be interpreted as a guilt trip by someone who is already feeling guilty, so a wise and compassionate advisor will take care to season their words with grace, especially during the initial meeting where the investor is discovering what they have really been invested in for the first time.

And if you are tempted to purposefully use guilt and shame as a sales technique, don't. Not only is it unbiblical to judge someone who had no idea they were doing something wrong, it is also not effective and will only result in turning away investors who otherwise might have done business with you had you welcomed them with grace and truth, instead of punishing them with guilt and shame.

Mistake #2: Getting hung up on fringe issues

I admit it. Biblically Responsible Investing is a highly complicated issue full of theological nuance. While some areas are black and white, such as abortion drug manufacturers or pornography sales, other areas are very much gray. Examples of gray areas would include the debate over whether a company's philanthropy should be included in screens, or just their primary business activities. Or what about the difference between BRI and a boycott? Is there a different level of stewardship accountability for an owner of a company verses a customer of a company? (Answer: There is, but that is also a topic for another time!) And a company's political activity? Do we count that as well?

There is no end to these questions, and there are no easy, cut and dry answers. The danger here is becoming myopically focused on fringe issues and thus losing focus on those core convictions that do have clear answers. Some advisors have become so distracted by the theological hairsplitting involved in answering these fringe questions that they are paralyzed from taking any action at all, even on the important issues which they do have clarity on.

I am reminded of a story, which I think is probably true, about the leaders of the church in Rome during the barbarian invasion. It is said that these theologians were gathered in intense debate over the question of whether a fly in the holy water caused the holy water to become desecrated or the fly to become holy. I am not sure if they ever got to the correct answer, but it doesn't matter much since the empire was soon overrun by barbarian invaders and crumbled to the ground.

As you transition your practice to BRI, let's focus on the barbarians at the gate first. We can figure the rest out later.

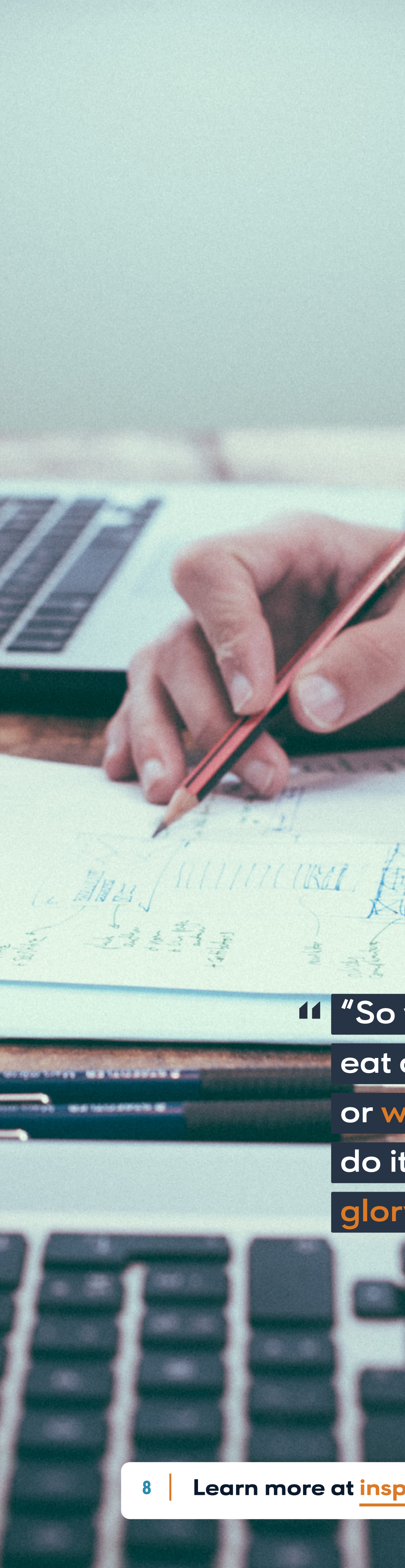
Mistake #1: Not doing anything until you understand everything

There are approximately one gazillion questions to answer to completely understand everything there is to know about BRI: How should I establish my screening criterion? What funds should I use? How do I communicate BRI to clients and prospects? Will I be able to make enough income with a BRI practice? What will the performance be like? And on, and on, and on.

I have spent countless hours in biblical and financial study about BRI. I have spent countless more hours in deep conversation with other financial professionals about BRI. And since 2011, I have been running a completely BRI advisory practice, meeting with clients, screening funds, managing portfolios and everything else that comes with running a BRI focused business... and now I have all the answers!

No, I really don't.

"As you transition your practice to BRI, let's focus on the barbarians at the gate first."



And guess what? You won't either.

As with most other theological topics, you could spend the rest of your life plunging the depths of them and never get to the bottom. As a result, some people never take any action at all because they don't have "all the answers" yet. Some people do that regarding making a decision to follow Christ. They can't wrap their mind around what it means to completely follow Jesus, so they never get started. But that is why it is called "faith in Christ," isn't it? Because we are not given all the answers up front. Oh, but the life of following Jesus is rich with blessing, answers or not!

While a far less significant decision than that of following Jesus, the decision to adopt BRI is similar. There will always be unanswered questions, and we must move forward in faith knowing that God has called us to glorify Him in everything we do, even if we do not understand fully what the outcome will be. "So whether you eat or drink or whatever you do, do it all to the glory of God." (1 Corinthians 10:31)

As it turns out, doing nothing does not accomplish anything. Start investing biblically now. Trust God with the details.

> "So whether you eat or drink or whatever you do, do it all to the glory of God."

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CEO, INSPIRE INVESTING

inspire

Robert Netzly is the CEO of Inspire Investing and frequent contributor on FOX, Bloomberg, New York Times and other major media. Read more from Robert in his #1 bestselling book Biblically Responsible Investing, available at Amazon.com and other major retailers.