5 Reasons why impact investing is important

If you're reading this, you're likely trying to find out how you can invest without giving your hard-earned money to ethically bankrupt corporations. Maybe you're trying to understand the benefits of socially responsible investing, or maybe you're wondering if investing consciously is even worth the effort. Well, you should know that there has never been a better time to start investing in socially responsible companies, and in this article you're going to find out why.

Commented [KW1]: Everything bolded is a keyword from the list. I think the two are Why Impact Investing Is Important and Benefits of Socially Responsible Investing

Impact investing is a type of investment strategy that, in addition to financial rewards, strives to have positive social or environmental effects. Impact investments can take the form of a variety of asset classes and have a variety of results. The goal of impact investing is to use money and capital to achieve positive social outcomes.

1. There's no such thing as a neutral investment

Every investment has an impact. Every investment is a decision to make the world more like one thing and less like something else. When you invest in a socially blind or ethically dubious company, what impact does that have on the world? Businesses, after all, are the engines that drive our economies, and your money is the fuel that powers them.

The question we need to ask ourselves, as socially responsible investors, is what impact is this company having on the world? Do you want to put fuel in a boat that is carbon neutral, or do you want to put fuel in a boat that pollutes the lake?

The argument that your investments don't matter, or that you can invest without consideration is untenable. We have a choice when it comes to how our money influences the future, and it's time to start making choices.

2. Businesses aren't going to change if you don't make them

Businesses play a dual role of *cause* and *solution* to many of our social, economic, and environmental problems. While we can frown at the fact that 100 companies produce 71% of global emissions, we must also recognize that businesses are the drivers and financiers of world-changing innovations. Like it or not, businesses will dictate the future of our planet. The *pertinent* question is who dictates the path these businesses take.

The obvious answer is government. Yet we've seen businesses fight governments in court and win, and we know that government action is slow, and that government inaction is unfortunately common.

Then who else? You, of course. Just as every vote matters at the polls, every investment matters when it comes to directing the course of our future.

3. You CAN make a difference

Pessimists have said that Impact Investing is a fad or that the benefits of socially responsible investing are exaggerated. They've been saying that for over a decade. In fact, when JP Morgan and the Rockefeller Foundation published a report claiming that by 2020 Impact Investing would reach between $400 billion and $1 trillion in assets under management, they had doubts.

In 2020 the market reached roughly $715 billion in assets under management according to GIIN, and roughly $2.1 trillion according to the International Finance Corporation (IFC).

The pessimists were wrong, and they are still wrong. The internet, a climate crisis, a global pandemic, and a generation of socially conscious investors has accelerated the demand for Impact Investing. This means the power to shape our future is in your hands. Companies can get onboard, or they can get left behind.

4. It can be a safer way to invest

How risky an investment is depends on who you're asking. You may be a thrill seeker in search of a boom or bust investment, or you may a long-term investor who is interested in slow, steady, low-risk growth. The good news is that Impact Investing can suit your needs regardless of how well you stomach risk.

A misconception we should dispel is that Impact Investing is inherently more risky than a traditional investment. This is not true. In fact, Impact Investing can provide a type of security that traditional investments can't—protection against the demands of a socially conscious world.

The main benefit of socially responsible investing is that well-run, socially conscious companies don't fall victim to public relations disasters and the boycotts that follow. And they don't flounder because they failed to plan for a changing economy.

5. You can make money

The greatest myth surrounding Impact Investing is that you'll always see a worse return on your investment. That's simply not true. Looking back to tumultuous 2020, sustainable funds weathered COVID's affect on the market better than traditional funds.

Consider these key findings from Morgan Stanley:

- U.S. sustainable equity funds outperformed their traditional peer funds by a median total return of 4.3 percentage points.
- U.S. sustainable bond funds outperformed their traditional peer funds by a median total return of 0.9 percentage points.
- U.S. sustainable equity funds' median downside deviation was 3.1 percentage points less than traditional peer funds.
- U.S. sustainable taxable bond funds' median downside deviation was 0.4 percentage points less than traditional peer funds.

And why wouldn't they? The future demands preparation for our changing climate, and it demands cognizance of issues like diversity and inclusion.

There are certainly more than 5 reasons to start Impact Investing, and if you're interested in learning more about it, like how it differs from concepts like ESG (Environmental Social Governance) and SRI (Socially Responsible Investing), then check out this article of ours as well.