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# When ethical investing pays off

## Patrick McCoy of Lowell, Blake & Associates spoke to Fortune about why his firm's socially conscious strategy works.

NEW YORK (Fortune) -- Lowell, Blake & Associates is a small, socially-conscious private investment advisory firm with an uncommon approach that's paid off well for clients lately.

As part of its ethical guidelines, LBA shuns bank stocks, because it believes banks make money by encouraging consumers to go into debt. As a result, the firm has sidestepped one of the great investing catastrophes of our time - the collapse of the financial sector.

Its approach also looks at a company's governance policies, its balance sheet (there must be very little debt) and the quality of its products - LBA managers like companies that sell "necessities" rather than "luxuries."

And they will not invest in tobacco companies or defense contractors, or anyone they believe harms the environment. LBA also looks for companies with a reputation for treating their employees well with profit-sharing and fair benefits.

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The approach seems to be working. In 2008, the firm's entire stock holdings were down 33%, but they outperformed the S&P 500 by more than 4 percentage points. The year before, LBA stocks returned 24% while the S&P returned less than 6%. And over the last seven years, its stocks have returned 36% while the S&P 500 has lost almost 1%.

LBA, which is based in Boston and has about $600 million under management, does not run mutual funds. Each of its clients has an individualized portfolio where every decision to buy or sell has to be approved before the firm goes ahead with a move.

There is no minimum account size, but the firm prefers to work with non-profits whose missions the advisors like or with clients who they believe are self-made or who have jobs that contribute to society in some way.

Fortune recently spoke with Patrick B. McCoy, a principal at Lowell, Blake & Associates, about the firm's unusual approach and where he sees some buying opportunities.

**Why does your firm avoid banks?**

In general we have an aversion to lenders, because it's tough to understand how they're making their money, and the quality of the loans they're making. Of course you're seeing that come out now - that there really is no quality.

The point we made was, we can't look at it and see what they own and tell whether it's safe or not, so we can't invest in something we can't understand. Anyone who told you they understood it was clearly wrong.

**How is your investing ethical?**

What that means to us is not necessarily companies that turn rainwater into drinking water or pie in the sky stuff. It does involve investing in companies that are ethical, based on how they treat their employees, their suppliers, their customers, the environment.

But we understand no company is perfect. We do our best to select best of breed. We generally stay away from financials because their main business is to get people in debt, and ethically we have an issue with that.

**What are you telling investors these days?**

This is obviously a pretty terrible time, but we're telling clients that the companies you own are in a great position financially. We avoid companies with lots of debt, and we try to find companies that sell necessities and do so all over the world.

We're also looking for companies that are at least able to maintain their dividends, if not increase them. So you should get some current reward for putting your neck out there and holding equities at all.

**What's a bright spot?**

Nestle ([NSRG.Y](http://money.cnn.com/quote/quote.html?symb=NSRG.Y&source=story_quote_link)) for instance is a great story. They just came out and announced a 69% increase in earnings. Of course that's ramped up by the sale of one of their assets, but they're still growing earnings by about 12% or 14% annually. They grew their sales by 2.2% and increased their dividend by 15%.

That is not a negative story; that is a very positive story. That's what we're trying to make clear to clients. There are parts of the world where the middle class has a rising standard of living. They are going to want some of these products, whether it's water or milk or toothpaste.

**What are some other companies you like?**

Wall Street hasn't gotten the concept that there are well-run companies all over the world. It's safe to say that probably 30% to 50% of the companies we are currently recommending are headquartered outside of the U.S. You just have to look, as some are not household names.

For instance, Novazymes ([NVZM.Y](http://money.cnn.com/quote/quote.html?symb=NVZM.Y&source=story_quote_link)) is a Danish company that makes enzymes used in a variety of different applications - everything from detergents to pharmaceutical development to food, so it's a very well balanced. It's very well-run, disciplined in terms of debt, which means it's able to increase its dividend consistently.

We are not currently buying it due to price. ABB ([ABB](http://money.cnn.com/quote/quote.html?symb=ABB&source=story_quote_link)), the Swiss engineering company, looks attractive, though. It will likely benefit from U.S. and global infrastructure and spending and currently yields nearly 4%.

**And you're not concerned that this financial crisis has become global?**

It certainly has. Everyone's going to have their earnings cut. That doesn't mean Nestle or Novazymes isn't going to. But if you focus on necessities you're going to do better than others.

These are companies that sell all over the world so they don't rely on one geographic area, and that helps to diffuse the effects of the global slowdown. In places like India and China, even though they're slowing down, they're probably going to grow, just not at 10%. And the standard of living is going to rise in places like Brazil.

**Anything else you're keeping your eye on that's cause for hope?**

Foreign government bonds are generally paying a premium over comparable [U.S. Treasurys](http://money.cnn.com/markets/bondcenter/index.html), and it's our belief that the strength of these various currencies will increase versus the dollar. But they're not all quality. Look at the ones backed by strong natural resources and a strong current account balance. Brazil is a great example. So are Canada and Australia.

**When do you see the stock market recovering?**

I don't know about the market as a whole. Anyone who claims to know is a phony. The really good companies are going to recover first. You see that with J&J ([JNJ](http://money.cnn.com/quote/quote.html?symb=JNJ&source=story_quote_link), [Fortune 500](http://money.cnn.com/magazines/fortune/fortune500/2008/snapshots/235.html?source=story_f500_link)) and Nestle - two of our largest holdings - which are down far less than the S&P because they're healthy companies and they pay a nice dividend and they're sustainable and can grow it.

The market tends to lead the economy out. And it will most likely resurrect itself before the economy by six months.

***Know anyone who shows extreme brand loyalty to the point where it's an obsession?*** *We're looking to talk to people who make a lifestyle out of their love of a certain product or brand. It could manifest itself in tattoos, major collections, a themed wedding, or some other tangible example. If you or someone you know fall into this category and are interested in talking with us, please email* *Beth Kowitt**.* 

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