

## Is there a cost to being socially responsible in investing?

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### Abstract

In this study we address three questions concerning socially responsible investing. First, is the average return of a socially screened equity universe statistically different from the average return of an unscreened universe for the 1987–94 period? Second, do analysts' earnings per share forecasts aid a manager in selecting stocks in socially screened and unscreened universes? Third, can one use an expected return model incorporating both value and growth components to select stocks and create portfolios in the socially screened and unscreened equity universes such that one can outperform both universe benchmarks? We find no statistically significant differences in the mean returns of unscreened and screened equity universes for the 1987–94 period. Earnings forecasts and the knowledge of those forecasts add value in the creation of portfolios. We find few statistically significant differences in the predictive power of the composite model to select stocks in both unscreened and screened equity universes. The estimated composite model offers the potential for substantial outperformance of socially screened and unscreened equity universes. © 1997 John Wiley & Sons, Ltd.

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