

# Financial Planning



**Investors overwhelmingly say ESG is important to them, but trading evidence on Robinhood doesn't support that, research shows.** *Photo by American Public Power Association/Unsplash*

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Investors are enamored of ESGs — values-based investments in companies that are supposedly engaging in positive environmental, social and governance practices. At least that's what a stream of reports and surveys seems to indicate.

Gartner, a technology research and consulting firm based in Stamford, Connecticut, reported earlier this year that [85% of investors](#) at least considered ESG when making investments in 2020.

A [Kiplinger-Domini poll](#) last month found that 70% of people consider a company's ESG policies very or somewhat important in their investment decisions. Just over half said they'd even be willing to sacrifice some investment gains to back companies with positive ESG attributes.

The money is flowing, too. [Bloomberg predicts](#) global ESG assets will exceed \$53 trillion by 2025, making up a third of all assets under management. That's up from \$30.6 trillion in 2018 and \$22.8

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Those fund flows seem to prove that investors really do care how much good a company is doing. Researchers from the University of Iowa, the University of Virginia and the University of Colorado at Boulder, however, aren't so sure.

“(Investors) want to seem like they're doing the right thing. They'll say, 'Listen, I'll take the ESG investment because like everyone here, I'm socially conscious.' But when you look at the actual portfolio decisions as we did with Robinhood, you just don't see it,” said Jim Naughton, associate professor of business administration at Virginia.



## ESG

### ESG funds with the biggest 10-year returns

October 26, 2021 6:31 PM

Naughton and his co-authors [examined investor activity](#) on retail platform Robinhood from June 2018 to the end of 2019 to see how ESG disclosures would affect trading. The researchers looked at trading activity for a company's stocks in the three days after the firm released information related to its ESG activity or positions. If investors were moved by such information, trades should increase in that period. But that didn't happen.

Instead, they found there is “less portfolio reallocation and lower growth in investors in response to ESG press releases when compared to non-ESG press releases,” according to the findings. “In contrast, these same investors make economically meaningful changes to their portfolios in response to press releases that do not pertain to ESG, especially those that are earnings announcements.”

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“When people in private are making their trading decisions, they do what will make them the most money,” Naughton said.

Advisors, too, hear that clients are interested in ESG investments, but there are still many questions swirling around about how good some of the investments really are for the environment or society.

“I have noticed an uptick in client interest on ESG investing. Sometimes, they don't even know it's possible, but when you bring it up, their face lights up,” said Alvin Carlos, a financial planner and managing partner at District Capital Management in Washington, D.C. “The bigger question is, how robust are the ESG funds out there? A Vanguard ESG fund eliminates ‘sin’ companies, but Facebook is still in the top 10 holdings. One can argue Facebook's products are bad for our society.”



## ESG

### Wild West of ESG blurs solid sustainable investment funds and ‘greenwashing’

November 11, 2021 12:28 PM

Pamela Chen, chief investment officer of Refresh Investments in Santa Monica, California, asks all her clients about ESGs.

“Overall, the response is ‘yes, very interested — all else being equal,’ she said. “Most clients are not willing to give up better returns for ESG. Luckily, ESG performance is improving, so we are moving toward a win-win situation.”

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enough to modify their investment approach, especially if it has potential to hurt performance,” Hammes said. “My opinion is that the story of ESG investing isn’t finished yet. The more it gets talked about, the more average investors will be interested in hearing more.”

That’s Naughton’s prediction as well. He thinks people say they love ESG because they really want to. It’s just not enough to truly tip the scales when making investment decisions yet.

“I personally would be happy to invest in a company that doesn’t do it for the money but has an impact on society. We all want ESG to succeed,” Naughton said. “This is not an indication that it will never be the case that it matters, but it isn’t right now.”

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**ESG EQUITIES**