Wealth Management

Are guns in your portfolio?

In the wake of recent and horrific shootings, a number of our clients and friends have asked questions about the components of their portfolio. Am I invested in gun manufacturers? If so, what is the exposure? And what actions should I be taking?

Our investing philosophy is to focus on "asset allocation," meaning we look to gain exposure to broad markets, such as U.S. equities or international equities, by investing in active fund managers and/or index funds. These funds themselves consist of large numbers of securities, such as stocks and bonds, across different industries. In general, index funds do not actively choose which stocks and bonds to buy; instead, they buy all the securities representing a certain sector or market index. As a result, these index funds may own gun manufacturers and/or companies that sell guns if the market or sector they seek to track does. On the other hand, active managers can decide which sectors to own or exclude. For example, some active managers have "socially responsible" criteria they follow while others do not.

So what does that mean for you? It means that if you own certain index funds, you could have a very small percentage of your portfolio in gun manufacturers. For example, if you own the Vanguard S&P 500, your exposure would be less than 1%. It is a small number because gun manufacturers themselves are small companies and hence a small component of the index. There are only three publicly traded gun makers in the U.S., all of which are small-cap stocks. In terms of distributors, there are only a few dealers that have substantial market share.

You may, however, be saying to yourself, "I don't want gun exposure of any kind." In that case, we suggest investing in a fund that excludes gun manufacturers. Such a decision would be unlikely to meaningfully impact your investment returns because the companies you would be excluding are an insignificant part of the index.

The practice of excluding companies with certain negative criteria or screening for companies with certain positive criteria is known as "socially responsible" investing. You may also hear this referred to as ESG investing, sustainable investing, or sometimes, impact investing. While excluding gun manufacturers from your portfolio is unlikely to affect your portfolio's performance, incorporating socially responsible investments more broadly in your portfolio may impact your returns positively or negatively. Historically, investors have perceived these strategies as offering less attractive performance, but many recent studies suggest the use of positive screening can enhance returns.

Many of our clients wish to align their investments with their values, and there are many ways to do this. Some individuals and organizations feel strongly about not wanting to own any gun makers. Others may feel it is more effective to consider an "engagement" strategy. For example, BlackRock, one of the largest providers of index funds, under pressure from shareholders, is engaging with gun manufacturers to promote safer and more responsible sale and use of firearms. And others just may not want to incorporate such factors in their portfolios or incur the tax costs associated with selling one fund to buy another.

For more than 30 years, the Etergino Group at RBC Wealth Management has been helping clients connect their wealth with their purpose.

For more information about this topic or our team, please click here or contact Ann Marie Etergino at annmarie.etergino@rbc.com or (301) 907 2772.

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18-WG-739 (04/18)