

# When Good Times Turn Bad, Invest In Sin

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The past 18 months or so has definitely been an economy not soon to be forgotten. However, it is in periods of upheaval such as this that prudent investors explore and take advantage of what opportunities may exist. While any one style of investing is no better than another, let us examine investing in sin, or the so-called vice sectors such as gambling, alcohol, tobacco and the like.

## History

As with beauty, what constitutes sin is often in the eye of the beholder. The history of limiting participation in certain types of investments based on moral precepts is nothing new. Jewish law had ethical mandates as far back as biblical times. U.S. history is also riddled with such constraints. The Quakers forbade ownership of slaves during the colonial era, and anti-war protestors have been voting with their investment dollars during every war in modern history.

## Investment Screens

The birth of modern socially responsible investment (SRI) screens in the late 1970s and early 1980s has provided the clearest definition of sin in today's investment arena. An investment screen is a constraint that can be placed on the universe of investments, excluding from that universe

those companies that engage in a business deemed undesirable. SRI screens primarily find their roots in the religious traditions that frowned upon certain activities such as gambling, alcohol, tobacco and weapons. As a result, any company that directly or indirectly engages in any of these businesses is often dubbed a sin stock. In recent years, the latitude of SRI screens has become quite broad.

## Vice in a Recession

Regardless of one's proclivity toward or against socially responsible investing, it is wise to explore what opportunities exist with any investment, especially in economically stressed times like these. Some experts argue that in challenging economic times, people flock to the nearest avenue of escape and distraction. When the broad economy is troubled, people will still drink alcohol and buy cigarettes. Recent news reports have chronicled a spike in gun sales. And the hope of striking it rich in Las Vegas or Atlantic City works to assuage concerns related to mounting debts, home foreclosure and the growing uncertainty of maintaining a stable income.

## Sin and Cash Flow

Another argument for investing in sin stocks has to do with the cash-rich nature of companies in these industries. Tobacco

companies do not (or cannot) spend as much on advertising as some other companies. While lawsuits have weighed heavily on the bottom line of tobacco companies over the past few years, some predict a reduction in legal judgments, combined with increased demand in foreign markets. Most alcohol-related companies are working with formulations decades, if not centuries, old so research and development dollars are less burdensome on the bottom line than with other companies. Throw in a broad decline in energy prices – getting goods to market has become less expensive – and profit margins have increased, if only ever so slightly. Some experts believe that all of these characteristics work to improve the yield that these companies offer investors. Others propose that companies engaged in these businesses have the unofficial backing of the U.S. government because it derives enormous tax revenue from these industries, and it would do whatever is necessary to ensure the status quo.

## Managing the Risk of Vice

While it may be difficult to invest in any one company given the challenging market, you may want to explore investing in sin via mutual funds and/or exchange traded funds (ETFs). The increased diversification offered by mutual funds and ETFs can help offset concerns regarding any specific company. Obviously, any investment carries a risk of loss, so careful research should be conducted and consideration should be given to appropriateness and expense prior to any investment decision. 📊

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