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The Evolution of Investing

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by

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Introduction

We live in a world that is constantly changing. The world of business is no different. The name of the game is innovation. How can companies innovate to stay relevant in the minds of their consumers while also remaining profitable? The investment industry has seen one of the biggest evolutions this century. If someone were asked what the investment industry looked like 15-20 years ago, their response would most likely depict a trading floor, lots of yelling and screaming, money-hungry brokers, and complicated numbers and symbols on a bunch of screens that they do not even want to try to understand. Technology and the idea of Corporate Social Responsibility has vastly changed that view.

Today, nearly every company that is involved with financial markets has completely re-wired the way they do business. Advancements in financial technology, or "FinTech", along with a general movement into online business and interaction, have made finance and investing more palatable for the general public. An example of a company that has taken this industry by storm is Robinhood. The creators of this multi-million-dollar company desperately wanted to simplify stock trading and make it for everyone. Even in their mission it says, "we're on a mission to democratize finance for all." For the longest time, the finance industry was only for those who could understand the complicated terminology and intricate trading algorithms. Companies like Robinhood have made investing simple, interesting, and profitable for people of all ages, no matter their income level or financial background.

With the emergence of companies like Robinhood, the big banks have created their own versions of simplified trading to accommodate their customers and to keep up with the competition. One example that will be looked at in-depth is Bank of America's Merrill Edge trading platform. Big banks have realized that they can no longer simply sit back and trust that their traditional investing strategies will generate the same level of customer satisfaction. With the creation of the Merrill Edge trading platform, Bank of America Merrill Lynch (BoAML) can extend their reach as a company into new target markets including lower income households and beginner traders. The concept of free trading, once thought to be new age thinking, has turned into an expectation in stock trading and has now transformed even the most traditional of financial organizations into believers.

Accompanying the dramatic shift to FinTech and online banking, impact investing, or ESG investing, has become very prominent with financial advisors and their clients. ESG investing stands for Environmental, Social, Governance. Simply put, this is a move in the investment industry to companies that promote both financial returns as well as overall impact on the world. More so than ever before, people seem to value social responsibility. Whether that be reducing their carbon footprint, standing up against injustice, or giving philanthropically, individuals desperately want to make this world a better place to live. That belief has now translated into investing. The world looks at the companies they make their purchases from and demand more. Companies cannot get away with just appealing to a certain target market. They now have to focus on the bigger picture and stand for something bigger than themselves in order to stay relevant with their consumers. Businesses are now expected to be the leaders in driving change environmentally, socially, and in our governments.

All in all, investing has gone through a massive transformation in the past 20 years. The world is innovating and changing at a rate that has never been seen before. Shifts to online banking and investing, big banks changing traditional business models, and investors caring more about global impact, have led to the democratization of financial markets. In this paper, we will look into how the everyday investor has changed because of the emergence of these online trading platforms and apps, the business models of these companies, and the ESG or impact investing strategies that so many financial advisors are implementing with their clients, all in an attempt to reveal the evolution taking place in the investment industry.

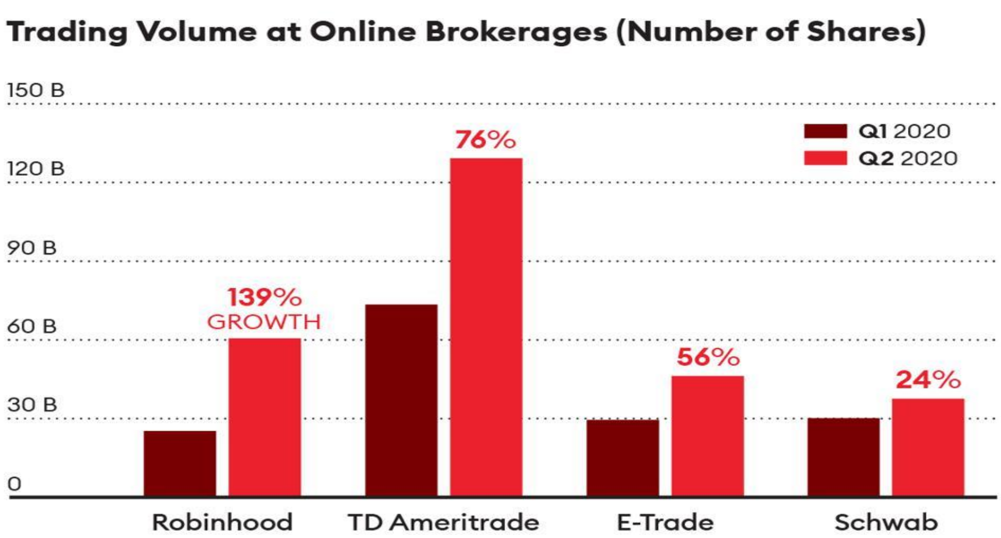
Robinhood Background and Business Model

Robinhood is one of the pioneers of the trading app industry. Companies like E-Trade, TD Ameritrade, and Schwab have had online trading platforms dating back to the 1990s, so this industry has been around for some time. However, the stigma surrounding these companies was, in my own words, "it takes money to make money." Therefore, the younger generations, the lower income individuals, and beginner traders were left out of the early stages of online trading and investing. Insert Robinhood.

The idea of Robinhood came to two Stanford grads, Vlad Tenev and Baiju Bhatt, who were great friends and roommates in Palo Alto. The two moved to New York upon graduation and started two finance companies, selling trading software to hedge funds. Throughout the course of business with these hedge funds, Vlad and Baiju realized that these big trading companies pay effectively zero to trade, while regular Americans must pay commission on every trade they make. Rather than building software to add wealth to the wealthy, the two friends left New York to go back to California to begin "building products that would provide everyone with access to the financial markets" (Robinhood, 2021). Their mission became one of the now coined phrases in the FinTech industry, "to democratize finance for all."

Figure 1 below simply shows the massive amount of growth that has taken place in all companies with online trading in the past year. As you can see, Robinhood's growth is nearly double the amount of the next closest competitor.

Figure 1



As far as revenue goes, Robinhood makes money on their trading platform through various ways. Zero commissions on trading is a great way to attract people to your platform, but money still must be made to operate. So how do they do it? The majority of Robinhood's revenue comes from the following: Rebates, Robinhood Gold, Stock loans, income generated cash, and Cash Management. First, let us dive into their largest source of revenue, rebates.

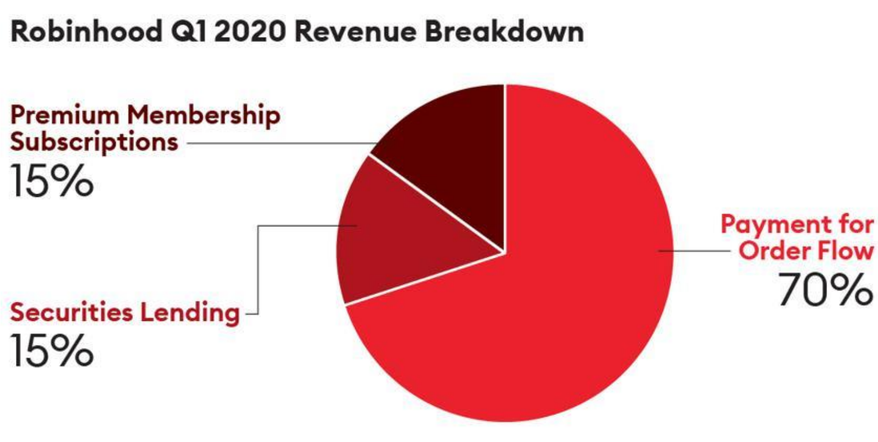
From the start, Robinhood placed the majority of their revenue burden on rebates, or payment for order flow (PFOF). In Q1 of 2020, Robinhood raked in 70% of their revenue from PFOF. Essentially, instead of taking a commission at the point of sale from the customer, Robinhood sells their trades to market-makers and charges them a percentage of the spread on every trade. These market-makers then execute the best possible trade with their sophisticated algorithmic models and try to shave a little off the bid or ask price to make a profit themselves. To simplify, these "market makers" pay Robinhood to be able to execute customer trades. This practice is considered very controversial because of its lack of transparency.

Some other ways this tech giant makes money are Robinhood Gold, stock loans, and income generated cash. Robinhood Gold is their premium app subscription model, offering "a suite of powerful investing tools" not offered to regular users. The added benefits include, Morningstar research reports, NASDAQ market data, bigger instant deposits, and margin investing. The stock loan option is like a bank except with securities. An individual can borrow money from Robinhood Securities to purchase stocks on margin. They then will have to repay Robinhood with added interest until they can pay off the loan. Lastly, also like a bank, Robinhood makes money off the cash deposited by customers. Instead of letting that money sit there on their platform, Robinhood places a large majority of outstanding cash in interest-bearing bank accounts to earn some form of compensation for holding your money.

The final major source of Robinhood's income is their Cash Management debit card. This card earns .30% APY, gives customers the benefit of no fees at over 75,000 ATMs, and offers direct deposit and virtual usage of the card anywhere Mastercard is accepted worldwide. As with any credit card company, Robinhood earns money from interchange fees. These fees are paid to the card company for processing funds from the customer's bank to the merchant's bank. For credit cards, this fee is around 1.81%, but for debit cards it is only around 0.3% per transaction.

Figure 2 below shows a percentage breakdown of Robinhood's larger revenue sources. As you can see, PFOF carries a large portion of the weight for revenue streams.

Figure 2



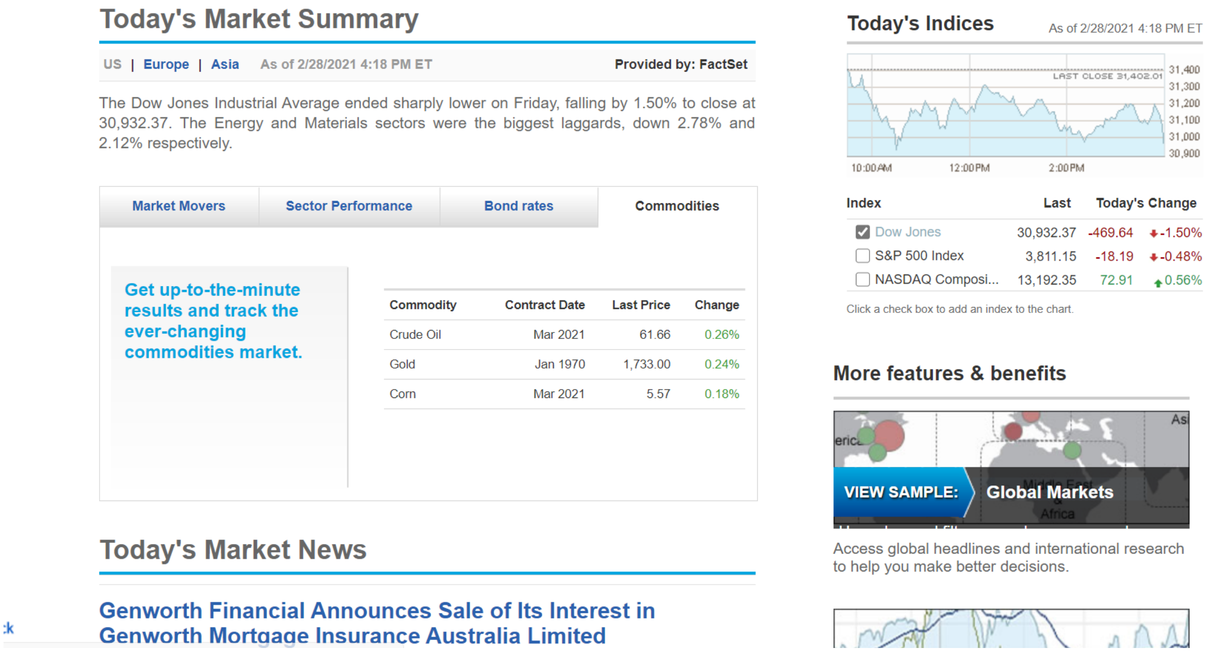
Robinhood has paved the way for zero commission trading platforms. When asked about their business model, Vlad and Baiju say they cater their tech-savvy platform to the younger generation. From personal experience with the app, it is simple, free, and addicting. Stories of young millionaires' day-trading penny stocks on Robinhood fuel many Millennial and Gen Z-er's dream of getting rich quick. The danger is when young traders begin treating options and other more complex derivative trading as if it “is as easy as leveling up in a video game” (Kauflin, 2020). In my opinion, the app has done an incredible job of attracting a different target market than typical investment companies and because of this, the younger generations have a better understanding of financial markets and the importance of early investing and financial literacy. This once small start-up has revolutionized investing forever and is even being replicated by the biggest firms in the industry as we will discuss next.

Merrill Edge Background and Business Model

In order to keep up with investment apps such as Robinhood, the big banks have had to adapt their business strategies to accommodate the influx of new investors interested in free stock trading. Merrill Lynch has been a powerhouse in the Financial Advising and investment industry dating back to the early 1900s. The 2008 Financial Crisis drove Merrill to seek help and they agreed to be acquired by Bank of America to prevent bankruptcy. Today Merrill exists as a part of Bank of America to provide a combination of banking services and investment advice to their customers.

Merrill Edge was launched in June of 2010, shortly after the acquisition, to merge Bank of America Investing and Merrill’s investment tools, research, and call centers. The mission behind creating this platform is as follows: “[They’re] reinventing what it means to be a confident online investor” (Merrill Edge, 2020). The cons of Financial Advising from people seeking advice always include the large amount of money needed to get an advisor for you or your family. In interning with Merrill this past summer, I learned that individuals must have over $250,000 worth of investable assets to do business with Merrill. But what about those individuals that do not have as much readily available to invest? These are the people that were falling through the cracks and contributing to the negative perspective of the financial advice industry. Insert the Merrill Edge trading platform. Now, like with Robinhood and the other FinTech apps, customers of Bank of America Merrill Lynch have access to “$0 online stock, ETF and option trades, with no annual account fees or balance minimums” (Merrill Edge, 2020). The big banks now have a full range of banking and investing services they can provide to their customers giving them a competitive advantage over FinTech apps such as Robinhood that are not tied to banking services. Users of Merrill Edge have access to easy-to-read insights and award-winning market research as well as having access to a range of stocks, bonds, ETFs, and mutual funds. An example of what Merrill Edge user sees is shown below in Figure 3.

Figure 3



As you can see, Merrill Edge users have instant easy-to-use access right on the home screen. Individuals are offered today's market news, today's indices, as well as a brief summary of the markets for the day. Merrill Edge prides themselves on "jargon free analysis and insights" so that beginning investors are not overwhelmed or left confused from reading in-depth market analysis reports.

With Robinhood we saw the numerous different ways they make money as a company. Without a banking presence, they have to create several different products to provide multiple revenue streams. Merrill, because they fall under the umbrella of Bank of America and their banking services, they do not have to create as many different revenue streams. Their sources of revenue are more straightforward. There are 3 different accounts under Merrill Edge:

- **Merrill Edge Self-Directed:** $0 minimum which offers free trading like Robinhood. In this account Merrill Edge mainly makes money off interest from the money held in your account, fees attached to options trading, and news ads that companies pay Merrill to be able to advertise on their trading platform.
- **Merrill Guided Investing:** $5000 minimum which offers an investment advisory program that combines self-directed investing with a professionally managed portfolio. There is a 0.45% annual program fee attached along with the options trading fees and advertising space for market news companies which Merrill reaps the benefits from.
- **Merrill Guided Investing with an advisor:** $20,000 minimum that offers all the benefits of the guided investing strategy accompanied by a real-life advisor that is paid by salary rather than commission. With this strategy there is the 0.45% annual program fee along with the options trading fees and ad space that make Merrill money.

One thing that separates Merrill Edge from their competitors is their Preferred Rewards Program. The rewards program consists of three tiers as shown below in Figure 4: Gold, Platinum, and Platinum Honors. Each tier comes with a wide range of benefits paralleled by no competitor. Benefits include auto loan discounts, credit bonuses, mortgage reductions, and more. Blain Reinkensmeyer of StockBrokers.com, claims that in his 20 years of trading experience, he has found nothing that compares to the rewards offered through the Merrill Edge trading platform (Stockbrokers, 2021).

Figure 4

	Gold	Platinum	Platinum Honors
Required balance	$20K to < $50K three-month combined average daily balance	$50K to < $100K three-month combined average daily balance	$100K+ three-month combined average daily balance
MERRILL A BANK OF AMERICA COMPANY Merrill Guided Investing	0.05% program fee discount.[7] Other fees may apply.*	0.10% program fee discount.[7] Other fees may apply.*	0.15% program fee discount.[7] Other fees may apply.*
Bank of America Advantage Savings interest rate booster[2]	5% interest rate booster[2] on a Bank of America Advantage Savings Account.	10% interest rate booster[2] on a Bank of America Advantage Savings Account.	20% interest rate booster[2] on a Bank of America Advantage Savings Account.
Credit card rewards bonus[3]	25% rewards bonus on an eligible Bank of America credit card.[3] Review card eligibility guidelines	50% rewards bonus on an eligible Bank of America credit card.[3] Review card eligibility guidelines	75% rewards bonus on an eligible Bank of America credit card.[3] Review card eligibility guidelines
Non-Bank of America ATM transactions in the U.S.	None	Up to 12/year no-fee ATM transactions – withdrawals, balance inquiries and balance transfers (one each per statement cycle) – with a Bank of America debit or ATM card at non-Bank of America ATMs in the U.S. and U.S. territories.[4]	Unlimited no-fee ATM transactions – withdrawals, balance inquiries and balance transfers with a Bank of America debit or ATM card at non-Bank of America ATMs in the U.S. and U.S. territories.[4]
Auto loan Discounts	0.25% Interest rate discount on a new Bank of America auto purchase or refinance loan[6]	0.35% Interest rate discount on a new Bank of America auto purchase or refinance loan[6]	0.50% Interest rate discount on a new Bank of America auto purchase or refinance loan[6]
Additional checking and savings accounts	No monthly maintenance fees on up to four eligible checking and four savings accounts	No monthly maintenance fees on up to four eligible checking and four savings accounts	No monthly maintenance fees on up to four eligible checking and four savings accounts
No-fee banking services	No fees on select services, including standard check orders, cashier's checks, incoming domestic wire transfers and more.[5]	No fees on select services, including standard check orders, cashier's checks, incoming domestic wire transfers and more.[5]	No fees on select services, including standard check orders, cashier's checks, incoming domestic wire transfers and more.[5]
Mortgage	$200 Reduction in the Origination Fee[8] on a new purchase or refinance mortgage.	$400 Reduction in the Origination Fee[8] on a new purchase or refinance mortgage.	$600 Reduction in the Origination Fee[8] on a new purchase or refinance mortgage.
Foreign currency exchange rate discount	1% discount on mobile and online orders only, includes free standard shipping	1.5% discount on mobile and online orders only, includes free standard shipping	2% discount on mobile and online orders only, includes free standard shipping

The executives at Merrill understand the need for constant innovation. In an industry like Finance and Investing, companies must stay on top of the ever-changing trends of investors and investing companies. Merrill Edge is a perfect example of a traditionalist company going away from their normal course of business to accommodate the changing investor and attract a new market for lower income investing. Through $0 trading and guided app-based advising, Merrill Edge has presented itself as one of the top FinTech trading apps in the market today. By providing a space for lower income investing, Merrill is keeping people from gravitating toward a Robinhood or one of the other younger trading platforms. This promotes one of the major ideas in investing known as generational wealth. If someone's parents are customers of Bank of America and do advising with Merrill, then their children will follow suit. And until their children have generated the amount of wealth they need to gain access to Merrill's advising services, they still have access to Merrill Edge with helpful education resources and entry level advising. So, the cycle continues. In the end, as long as Merrill Edge continues to innovate their app with the trends of lower-income investors, they will be a staple in the industry for a long time to come.

A Comparison of Robinhood and Merrill Edge

After seeing the in-depth analysis of each trading platform, which one is better? Which one is easier to use, offers more for the consumer, and ultimately adapts to industry and investor trends at a higher level? To accurately compare the two, let us break up the comparison into groups. First up is ease of use for beginners.

The whole idea behind mobile trading and online investing with little to no fees is to make the investment process easier for people. In the past, investing has created this stigma of complicated analyses filled with impossible jargon that only the professionals can truly decipher. Well now investing has been made simple. So, of the simple investing tools we now have, which is better? The majority of this comparison is being taken from StockBrokers.com whose mission is to create unbiased reviews to help investors find the broker that is the best fit for them. According to their research, Merrill Edge takes the cake when it comes to simplification and being better for beginner investors. While Robinhood might seem more attractive due to its video-game-like trading style, Merrill Edge gives investors access to educational videos for several financial instruments such as stocks, ETFs, mutual funds, options, retirement, and more. Because Merrill has been around for so long, they carry with them a plethora of financial backgrounds and knowledge that they can impart to those who invest with them. Robinhood has yet to create any sort of educational resource in their app to help educate investors. Maybe that is a product of being such a young company, but I believe it would create further competitive advantage if they were to provide more educational resources and instructional videos to help beginner investors be successful. Merrill understands the value of transparent educational resources. Instead of hiding the tools needed to be successful in the markets, they are willing to give up their research and offer their own advice, making Merrill Edge a more attractive and safer option for those new to investing.

Next, we will look at which platform offers more investment options. For those well-versed in investing, a platform that offers the most variety is going to be the more suitable choice. Once again, Merrill's long-lasting services win this category. "Merrill Edge offers investors access to Stock Trading, OTCBB / Pink Sheets, Options Trading, Mutual Funds and Advisor Services" (StockBrokers, 2021). More recently, Robinhood has acquired options trading capabilities, but Merrill offers more than 3000 more mutual funds than Robinhood. This could be due to a difference in investor objective, however. Those investing with Merrill often do so for retirement, college savings, or other safer more long-term investing. In which case, a variety of mutual funds would be a good option for this investment strategy. Robinhood on the other hand, attracts more short-term investing strategies where mutual funds would not be the most ideal investment option. Nonetheless, Merrill's 90-year history allows them to have access to more investment options for their investors. More options equal more possible diversity in one's portfolio. And diversity is the name of the game in investing.

An additional important feature of these online investing companies is the trading platform itself. In order to compare the two, StockBrokers tested trading tools, research capabilities, and mobile apps for each company. They found that Merrill offers a better trading experience, more superior market research, and a better mobile app, making the trading platform better on nearly every level. As shown in Figure 5 below, the first thing analyzed was the desktop platforms of each company. Speaking even from personal experience, the Merrill Edge desktop platform is much easier to use and get into than Robinhood. Robinhood was created as an app and therefore did not worry about the perfect desktop version. However, older investors are less likely to use a mobile app, and instead stick to desktop versions such as Merrill. The practicality of Robinhood's trading platform for older individuals is one of the biggest "misses" the company has. They are losing out on an entire market of individuals. Heat Mapping shown in the figure below is simply a visual tool used to view gainers and losers in a portfolio or watch list. Merrill Edge offers a more efficient way of presenting this material than that of Robinhood.

Figure 5

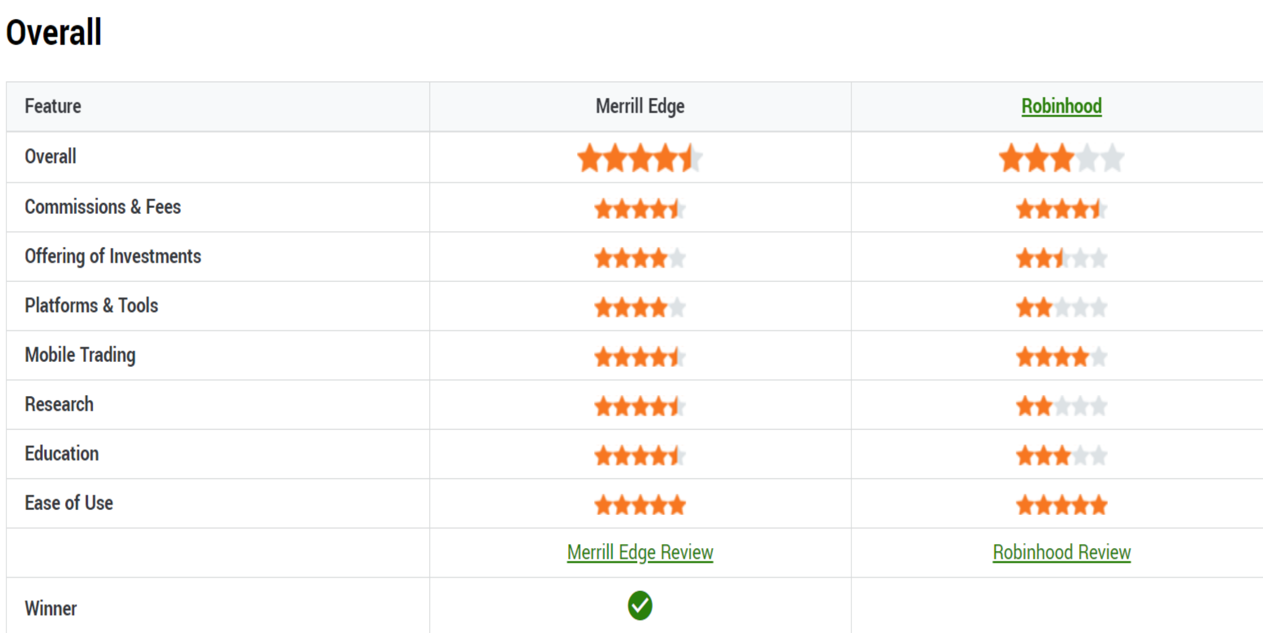
Trading Platforms

Feature	Merrill Edge	Robinhood
Desktop Platform (Windows)	✓	✗
Desktop Platform (Mac)	✓	✗
Web Platform	✓	✓
Paper Trading	✗	✗
Trade Journal	✗	✗
Heat Mapping	✓	✗
Watch Lists - Total Fields	285	7

Finally, the last category that seals the deal for me as an investor is the banking services. Online banking services that accompany investment options is the holistic financial service that individuals need. All their financial needs, in one space. That is Merrill Edge. As stated previously in the paper, Merrill Lynch is under the Bank of America umbrella. With that comes Bank of America's award-winning banking services, serving over 30 million mobile banking customers. Robinhood has begun to create some banking services including the new Robinhood debit card; however, their capabilities are very young and do not measure up to the offerings of their competitors. Merrill Edge is able to offer checking accounts, savings accounts, debit cards, credit cards, and mortgage loans. Robinhood was not created to have banking capabilities. Their business model caters to the free-lance investor seeking an easy investment platform. But when the competitor can offer an easy investment platform accompanied by banking services, a 15-minute conversation with a Merrill advocate is all it will take to get someone to switch.

At the end of the day, it all comes down to what the consumer wants. If you are someone who has your banking services covered and just wants to play around in the stock market a little bit, Robinhood is an excellent choice for straightforward investing. But if you are after variety and complete financial services, a “one stop shop” so to speak, Merrill Edge is the platform for you. Both companies do an excellent job of simplifying investing and have revolutionized the way we approach investing. By stripping the complicated fees, person to person brokers, and incomprehensible stock analyses, Merrill Edge and Robinhood are attracting individuals to the financial markets that previously would not have participated. It is all about innovating to promote market growth, and that is exactly what we are seeing in financial markets today. The final chart analysis by StockBrokers is presented below.

Figure 6



Overall

Feature	Merrill Edge	Robinhood
Overall	★★★★½	★★★
Commissions & Fees	★★★★½	★★★★½
Offering of Investments	★★★★	★★½
Platforms & Tools	★★★★	★★
Mobile Trading	★★★★½	★★★★
Research	★★★★½	★★
Education	★★★★½	★★★
Ease of Use	★★★★★	★★★★★
	Merrill Edge Review	Robinhood Review
Winner	✔	

The Emergence of Impact Investing

Now that we have covered a couple examples of companies that have seen the industry trends and either created a platform for modern trading or adapted an existing platform, let us investigate one of the most predominant trends in investing, financial advising, and the world as a whole. When it comes to picking the companies that you want to have an equitable stance in, the traditional approach is through research of that company’s financials. A person could tell through the financial statements whether or not the company was overvalued or undervalued, and then would invest accordingly. While valuation of companies is still done that way, investors today are more socially conscious. The trends of the world today include environmental sustainability, social justice, and equality. What financial advisors are finding today, is people like to invest their money in companies with beliefs similar to their own and companies that are seeking to make the world a better place, not just drive up their stock price and profitability. "The idea behind impact investing is that investors can pursue financial returns while also intentionally addressing social and environmental challenges" (Levine, Emerson, pg. 10, 2011). This is not exactly a new age idea. People such as the Quakers back in the 17^{th} century "sought to align their investment and purchase decisions with their values" (Levine, Emerson, pg. 11, 2011). However, impact investors nowadays are more optimistic than ever before that businesses play a major role in promoting social responsibility.

A couple examples of situations prompting impact investing taken from Levine and Emerson's MIT journalist article are as follows:

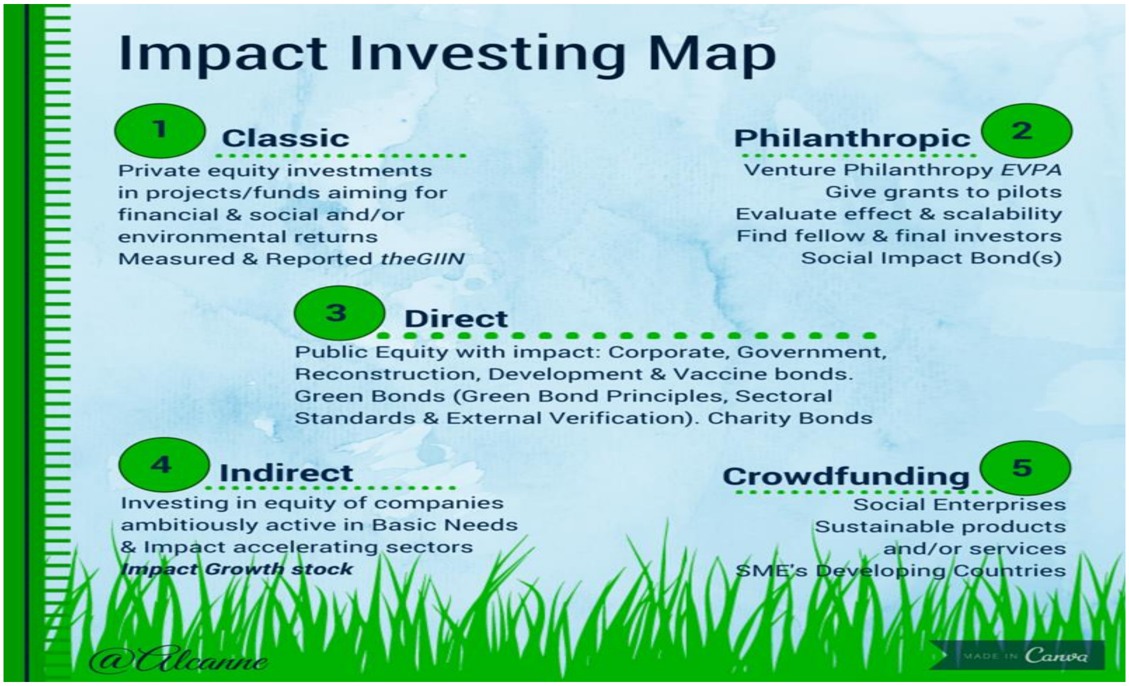
"An investor in Hong Kong wants to secure her children's economic future. But she also wants to use her wealth to address the social and environmental challenges she cares about and thereby leave a broader legacy. She becomes convinced that simply giving her money away cannot be the only way she can make a difference. So, she redirects her assets into investments that preserve her wealth and directly tackle problems of poverty and environmental degradation.

A group of friends volunteering for a nonprofit organization look for ways to help reduce poverty in rural Mexico. They stumble onto the idea of lending small amounts to poor people who cannot access loans from banks. But they struggle to secure donations and instead take on loans. When their success exhausts their available charitable capital, they convert to a for-profit enterprise and eventually hold an initial public offering on the Mexican stock market that raises more than $300 million. Suddenly they find themselves in the middle of a global media storm, lionized as saviors and vilified as greedy capitalists" (pg. 9).

Each of these situations tackle social issues while also seeking a financial return. They can create avenues for economic performance and social and environmental impact. These once separate ideas of for-profit and charitable contributions are now being melded together to form something far greater than anyone could have imagined.

There are various categories of impact investing. Figure 7 below shows how they can be broken up. The categories are classic, philanthropic, direct, indirect, and crowdfunding. The predominant category where investors make an impact today is in the indirect category. Indirect impact investing is putting money into a company on Robinhood or Merrill Edge or whatever platform you use that promotes social responsibility. For example, I may be very passionate about the impact of the internet and technology, and I also care about environmental sustainability and social issues. Google is a leader in the tech industry, and they also are rated as one of the top CSR (corporate social responsibility) companies in the world. Their CEO Sundar Pichai stands up against social issues and has pledged over $1B toward renewable energy products. So, as you can see, it is much more than just the fact that Google is a very profitable company. They are also making a difference with those profits.

Figure 7



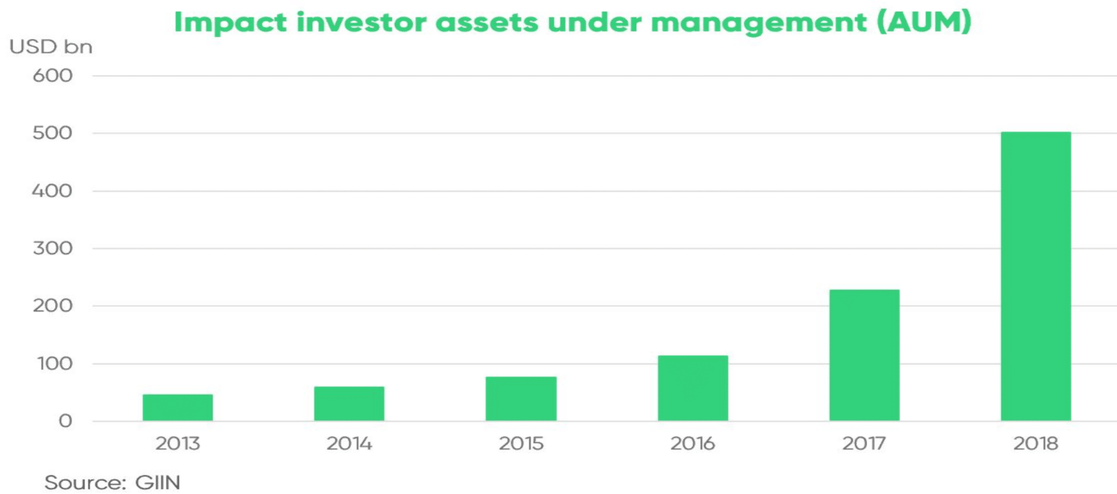
We are finding that the challenges the world is presenting today require innovative ideas to come up with solutions. For the longest time, we, as a society, have pushed social issues onto government. We have found, however, that the challenges are too big and the financial resources available are too small to truly accomplish anything, particularly over an elected term. "Blended value offers a new way to integrate our activities around the recognition that we do not seek either wealth or social justice: we seek both" (Levine, Emerson, pg. 12, 2011).

Blended value is the product of impact investing. Instead of just generating wealth or just generating social justice, blended value produces both. It is also not combining separate ideas to create value. The components of blended value are the same as any other type of value: economic, social, and environmental. By viewing these three elements as core to a sustainable future, we can transform businesses and organizations into for-profit, world changing firms. Investors are not shifting to impact investing because it feels good. We are seeing significant changes environmentally and socially, and we long to be a part of something bigger than ourselves. This is bigger than us. This is about creating a sustainable future for those that come after us.

In my internship this summer, they continually talked about this shift to impact investing among their clients. As a financial advisor, you are in charge of managing your clients' investing. Various strategies exist for clients to choose from based on how aggressive they wish to pursue profits. While advisors spend the majority of their time seeking financial performance, they also tend to suggest charitable giving, or some sort of philanthropic activity based on the client's desire for it. Impact investing combines these objectives and offers clients a best of both worlds solution to generate returns and give back to the community.

One of the main topics in financial advising today is the massive shift in wealth that we are about to see from older generations to Millennials and Gen Zs. Younger individuals are about to come into a large sum of money. The Millennials and Gen Zs are the ones that are advocating sustainability and corporate social responsibility the most. Therefore, impact investing is going to be a huge part of the wealth shift and could sustain the market for impact investing for many years to come. The growth in the past eight years in assets under management for impact investors is shown below in Figure 8.

Figure 8



What are the dangers with impact investing? How could this go wrong or end? The danger with any trend is that will come to a screeching halt. For impact investing, one danger is that individuals see this as a substitute for charitable donations thus hurting many non-profits that rely on donations as a revenue source. Another danger is that it will just fade away without making much of a difference at all. As soon as another trend pops up that individuals can profit more from, this wave could come crashing down, never to be seen again. And finally, impact investing could become another marketing ploy for businesses to get your money. Companies could create assets that seem to generate environmental or social value, but, in actuality, it is just a cover up for a pure "profit puppy", similar to the mortgage-backed securities movement of 2007 and 2008.

"Impact investing is not about bumper-sticker solutions to feeding the billions or saving the planet, and you are not passive observers of this new system" (Levine, Emerson, pg. 17, 2011). We all have a role to play because this type of investing strategy affects the very world we live in for the better. Impact investing is an entirely new system and way of thinking than our current capitalist system. When multiple systems are in play, conflict, frustrations, and setbacks are bound to occur. The interplay of these two systems has the ability to capture value in places we never have before. The power of this movement has no bounds. Impact investing is growing rapidly, and it is up to all of us to decide whether we are hopping on board or whether we are going to watch this trend die out from the sidelines.

An Analysis of ESG Fund Performance

Now that we know what Impact Investing (also called ESG investing) is, the question is: Are these funds profitable? While it is important to have a positive impact on the environment, social issues, and governance, people are not going to rally around an industry or investing style that fails to generate some sort of profit. It is an option to invest in single ESG stocks, but the name of the game in investing is diversification. Just as with any normal mutual fund or ETF, ESG funds house many companies that impact our world for the better. Spreading out your investments among 50-100 companies presents the best opportunity to both generate a profit and elude large amounts of risk. The principles of ESG (Environment, Social, Governance) are becoming commonplace in businesses today. Selfless business practices after the well-being of our planet and the people living on it has a solid foothold today. ESG investing however, is in the early stages of what seems to be a long-term trend. “At the end of July 2020, globally listed exchange-traded products topped $100B for the first time” (Shriber, pg. 1, 2020).

Laura Gonzalez, Finance professor at Cal State, Long Beach believes that there are both social and personal reasons for why ESG investing has the capability of taking off:

“*There are two reasons to explore ESG investment opportunities. One is social responsibility and the other one is personal benefit. Personal benefit can take several forms, from health benefits to competitive returns. Research shows that ESG investment returns are becoming competitive. Therefore, even if not interested in the products or services offered, ESG investments are still an option…*” *(Shriber, pg. 1, 2020)*

No longer does simply excluding fossil fuels, guns, alcohol, or tobacco count as social responsibility. This is a new era of investing that will take the world by storm.

Let us now take a look at some of the best funds to buy for ESG investing according to InvestorPlace. The table below simply shows 6 of the best ESG funds and how they have grown in value over the past year.

Name	**Price**	**Price 1 Year Ago**	**% Change**
FRDM	$34.08	$18.72	82.05%
GRNB	$27.15	$26.57	2.20%
EFIV	$36.90	$30.15	22.39%
SPYX	$98.15	$60.38	62.55%
BLES	$36.55	$20.15	81.39%
NACP	$30.35	$18.00	68.59%

What do these numbers tell us? First, the value of ESG investments in the past year has increased substantially. The markets reflect where individuals are finding value and where the economy as a whole is headed. A clear upward trend in ESG investing value can be seen over the past year. Second, the economy as a whole is trending upward. The global pandemic may skew these numbers because we have had an unprecedented year of stock market success. The ETF that tracks with the S&P 500 is up just over 60% in the past year. Normal years see around 8-10% growth per year. However, four of the six funds researched above outperformed the market even in an anomaly of a year. What this says is that ESG investing is valued more so or at least as much as the traditional funds and companies that make up the S&P 500. This is a clear indicator of the transition in the investor mindset from traditional profit hungry mega-companies, to firms focused on improving our world.

What exactly is in each of these funds? For example, the FRDM fund consists of 100 companies that emphasize human rights. This fund uses dozens of inputs to evaluate developing economies on issues ranging from property rights to economic freedom and more. This strategy lowers volatility and is a good diversifier for investors seeking foreign tech exposure.

GRNB is a green bond fund. Bond funds do not generate the returns that equity funds do, but they are good for overall portfolio diversification and stabilization. Green bonds are simply debt sold by a company or government to fund an eco-friendly project. This fund is the first of its kind and is starting to generate interest from investors seeking fixed income ESG options.

EFIV tracks with companies that avoid polluters, tobacco companies, and gun makers. It also tracks with the S&P 500. For investors looking to overweight their portfolio in tech and avoid the risk of company lapses, this is a solid fund for you.

SPYX is simply the S&P 500 minus the entire energy sector. Energy has been lagging behind the rest of the companies in the S&P of late, and this fund gives investors the capability of investing in the market without advocating and putting money into environmentally unfriendly companies.

BLES is a fund made up of companies that not only exclude gambling, tobacco, alcohol, and polluters, but it also tracks with companies that have Biblical values. The fund does not include firms that do business in countries that are state sponsors of terrorism, countries with poor labor practices and those with histories of Christian discrimination, among other factors.

Finally, NACP tracks the Morningstar Minority Empowerment Index. The index gives exposure to companies that stand out for their commitment to racial and ethnic diversity. NACP holds 175 stocks ranked by factors such as board diversity, discrimination policies, and more.

These ESG funds are revolutionizing the way individuals invest. The world is shifting its focus to eco-friendly, socially responsible solutions to the world's problems. This is the next step in that process.

Figure 9

Figure 9 above shows a comparison between the top performing mutual fund (BRSVX) and one of the top performing ESG funds (FRDM). Although BRSVX grew almost twice as much as FRDM, this shows that ESG investing is profitable. In just a year, your money could have been doubled from FRDM equity. However, this also shows that the world still values the more traditional mutual funds because they generate more return for their portfolio. My takeaway as to what all this means will be expounded upon in my conclusion. But instead of seeing this comparison as a loss for ESG and a win for traditional mutual fund investing, I see the start of a possible replacement to traditional investing. ESG funds are in their early stages. Companies are just now becoming socially responsible. 10-20 years from now, we could see only companies that are doing some sort of good for the world and not just focused on generating profitable returns. This comparison shows that ESG funds are here to stay and can generate a sufficient return for investors to begin shifting their money. A new generation of social responsibility advocates is beginning to enter into the work force. Perhaps, a massive shift of investing priorities is about to take place as well.

Conclusion

Investing is a rapidly changing industry. Think back just 20 years ago, the majority of investing was done with a physical broker. It was known for this chaotic, stressful, intense way of business filled with a lot of wealthy individuals getting even wealthier. As the world has become more technologically advanced, businesses of every kind have had to adapt the way they do things to keep up with the changing times. Investing is no different. Insert the emergence of online brokers and zero trading fees that turned the physical trading platform into a fully virtual and more simplistic process. Companies like E-Trade that were the pioneers in this online broker industry have given birth to the new age crossroad companies like Robinhood. Robinhood has taken online brokerage and given it a mobile trading platform with video game like usage that adapts to all generations of investors and has even attracted new markets of young investors to the relatively simple life of mobile stock trading. Bigger companies like Merrill Lynch have adapted their own mobile trading platform and online brokerages to compete with new age investing trends.

The latest trend that can be seen in nearly every major public company is that of social responsibility. The biggest companies in the world are adapting their practices to better take care of the environment, to address social justice issues, and stand for something bigger than just profits. The world is demanding more equality, more environmentally friendly practices, more sustainability, and more impact. One thing that cannot be argued is that our world is aiming for more sustainability and social justice.

My argument in my research is that just as businesses are adjusting their processes and products, the investment industry is doing the same thing. People want more from the companies they are investing in. Obviously, the most important thing in portfolio management remains generating a return for their clients that preferably beats the overall market's return. However, through my internship with Merrill Lynch and my own research, I have learned that value investing, impact investing, ESG investing, have become paramount to a client's desires for their own portfolio. Clients want their investments to line up with their own personal values, and they want the companies they invest in to be impacting the community in a positive way.

Now the next important question is whether these ESG investments are as advantageous financially as normal investing strategies. For the most part, investing for a client in the financial advising industry is still done in diversified mutual funds, ETFs, bonds, and individual companies on the S&P 500. In the past few years, the focus on sustainable business practices has opened the door to sustainable investment funds. My research in the previous section sought to understand the performance of these funds in comparison to typical mutual funds.

Overall, ESG funds have not outperformed the best traditional mutual funds, but in the past year these ESG funds have nearly doubled in value. In the past year, the stock market is up around 50%. The majority of ESG funds beat the market in the past year by a significant amount with most being in the 60-80% growth range. At the end of the day, ESG investing is not yet a substitute for traditional mutual funds. However, this industry is rapidly growing and will continue to become more popular as sustainability, social responsibility, and environmentally conscious business practices are at the forefront of business news everywhere.

Will this trend die out? Will sustainability be the trend of the day in 10 years? Can environmentally friendly practices become cheaper to implement? These are the important questions I have as a current and future investor. ESG investing is a great application to diversify the portfolio while also providing value to the community and world around us, but it is not a substitute for traditional investing strategies. Perhaps that is a product of the "newness" of the industry, but my conclusion is that the greatest returns are still found in portfolios with companies that capture value from low-cost business strategies. And until sustainability and corporate social responsibility cost less money and become more measurable from a financial statement standpoint, individual investors will gravitate toward traditional investment funds.

Investing will always be a pivotal part of our lives and will continue to change and look a little different for every generation. The trend of today will not be the trend of tomorrow. Companies like Robinhood have attracted more people to investing than ever before. We are seeing the impact of the younger generation investors in the news with companies such as Gamestop and AMC. They have turned the complicated world of investing into an easy-to-use platform for people of all ages. With sustainability and social responsibility at the top of every company and individual's mind today, investments are trending in that direction and impacting the way portfolio managers build strategies. In the end, investors and companies are attempting to capture value from anything. Today, it is sustainability. Tomorrow, who knows? The continual evolution of investing is a key determinant of where people find value. The only question that remains now is, "what is next?"

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