Student-Managed Investment Funds in Religiously Affiliated and Independent Colleges and Universities

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ABSTRACT: *Many colleges and universities now offer student-managed investment fund (SMIF) courses where students simultaneously manage a portfolio of real dollar investments and earn academic credit. This paper compares and contrasts the investment policies and objectives between religiously affiliated and independent private colleges and universities. Universities that offer SMIF courses as a part of their undergraduate finance curriculum were categorized as either a religiously affiliated or an independent private university. An instructor survey was administered to collect data on the specific investment policies with special consideration to socially responsible investment concerns. Additional data was gathered from* U.S. News & World Report *and the Integrated Postsecondary Education Data System (IPEDS) in order to control for institution size, academic reputation, and other institutional variables. Comparison variables of interest include the size of the fund under student control, whether or not socially responsible investment policies are implemented, and whether or not margin trading and derivative trading are permissible investment strategies. The results of this study outline differences in the practice of socially responsible investing between the institution types and provide a glimpse into some of the unique concerns that religiously affiliated schools consider when operating student-managed investment funds.*

INTRODUCTION

Many colleges and universities now offer student-managed investment fund (SMIF) courses where students simultaneously manage a portfolio of real dollar investments and earn academic credit. The use of student-managed investment funds as an applied learning technique in finance was first reported by Belt (1973), Hirt (1977) and Bear & Boyd (1984). Student-managed investment funds provide students the opportunity to manage a portfolio of real dollar investments and earn academic credit. Student-managed funds typically benefit a university through improved course offerings within the field of finance where academic knowledge and practical experience are developed simultaneously.

Socially responsible investing is the practice of using both financial and social criteria when making investment decisions. The goal of socially responsible investing is to invest in companies and organizations displaying values comparable to one's own. Socially responsible investing strategies may include screening (refraining from investing in corporations with products or policies inconsistent with one's values), shareholder advocacy (actions taken to improve corporate disclosure, policies, performance, and governance), and community investing (investing in communities that are underserved by traditional financial markets and services). Almost one out of every ten dollars invested in professionally managed funds in the United States is involved in some combination of the three core socially responsible investing strategies: screening, shareholder advocacy, and community investing (Social Investment Forum, 2005).

This paper will present a literature review of both student-managed investment funds and socially responsible investing. Church affiliated and independent schools that operate student-managed funds will be identified. The results of an instructor survey will be presented where comparison variables of interest include the size of the fund under student control, whether or not socially responsible investment policies are implemented, and whether or not margin trading and derivative trading are used as investment strategies. The results of this study will outline differences in the practice of socially responsible investing between the institution types and provide a glimpse into some of the unique concerns that religiously affiliated schools consider when operating student-managed investment funds.

LITERATURE REVIEW: *STUDENT MANAGED FUNDS*

Dewey (1938) is generally cited as the first to promote a "learn-by-doing" education model. The first wide-scale attempt at using a "learn-by-doing" approach in investments was the use of simulations. Branch (1975), Fischer and Madden (1979), and Burns and Burns (1982) all promoted the use of simulations as an effective way to learn investments and stimulate student interest. There are pitfalls with the use of simulations. Halberg (2001) believes that hypothetical investing may promote "investment behavior antithetical to classroom instruction." Saunders (1999) notes that some "investment games cater to a short-term horizon" where "speculative and risky strategies, such as buying on margin and investing in only a few stocks, are encouraged." Due to some of the speculative and risky strategies that develop when using simulations, Kagan, Mayo, and Stout (1995) suggest that risk-adjusted returns should be calculated to introduce the values of diversification.

In several universities, innovations in financial education have allowed a movement beyond simulations to student management of real dollar funds. Moses and Singleton (2005) have found that "real dollar portfolios have higher educational value" relative to simulations (p. 36). Haddad and Redman (2006) report that student-managed funds can produce superior returns relative to the S&P 500.

The number of student-managed funds has grown dramatically over the past 35 years. Lawrence (1994) reports that the number of funds grew from 7 in 1972 to 37 in 1993. Neely and Cooley (2004) conducted a survey of 128 student-managed funds in 2004. Root, Rozycki, Senteza, and Suh (2007) found that 15% of AACSB and 2% of non-AACSB schools offer students the opportunity to manage real funds as a part of the finance major.

Block & French (1991) and Kahl (1998) describe the process for starting and operating student managed funds. Most of the funds created prior to the mid-1980s were created by lump sum gifts. A trend in using a portion of a university's endowment for student management was first reported in Tater (1987) and Lawrence (1990).

Grinder, Cooper, and Britt (1999) describe how student-managed funds allow students to use different "learning styles" (Gardner, 1983) to achieve higher levels of learning in the cognitive domain (Bloom, et al., 1956) and apply professional values and an ethical framework in terms of the affective domain (Krathwohl, et al.,1964). This application of an ethical framework is important. The Association to Advance Collegiate Schools of Business International (AACSB International, 2004) reported that:

> While a number of business schools have developed innovative strategies for engaging students in the challenge of providing ethical leadership, the assumption of many faculty and program leaders that the majority of students are being adequately prepared in this domain is highly questionable.

Thus, the use of student-managed investment funds can provide students with practical experience in dealing with ethical issues as they pertain to finance. One way to make the application of ethics into investment decision making more intentional is to conduct "ethical" or "socially responsible" investing.

LITERATURE REVIEW: *SOCIALLY RESPONSIBLE INVESTING*

According to the Social Investment Forum (2005), research "has repeatedly confirmed that, when properly managed, risk-adjusted, and controlled for investment style, socially screened portfolios perform comparably to their unscreened peers" (p. 14). The findings of Hamilton, Jo, and Statman (1993), Kurtz (1997), Sauer (1997), Goldreyer, Ahmed, and Diltz (1999), and Statman (2000) support the conclusion of the Social Investment Forum. One might think that socially responsible funds may lose out on some diversification benefits due to screening. However, Boutin-Dufresne and Savaria (2004) and Bello (2005) find that socially responsible funds do not differ significantly from conventional funds in terms of diversification benefits.

The Social Investment Forum (2005) reports that the most prevalent mutual fund social screens are stocks involved in the production of tobacco, alcohol, gambling, and defense/weapons. Looking at investment objectives and performance from a different angle the Vice Fund (2007) was created in 2002 to deliberately make investments deemed to be socially "irresponsible" (e.g. tobacco, alcohol, gambling, and defense/weapons). The vice fund has posted very impressive returns since its inception with a Lipper percentile ranking in the top 3% and ranking 14th out of 652 funds for 3-year return (Vice Fund, 2007). Shank, Manullang, and Hill (2005), and Hemley, Morris, and Gilde (2005), and Chong, Her, and Phillips (2006) have all studied "irresponsible" or "antisocially conscious" investing. Israelsen (2006) compared the performance of three "sin" industries (tobacco, alcohol, and gambling) with all other industries and equity benchmark indexes. Israelsen (2006) finds that the "performance of sin stocks is linked to the general trends in the U.S. equity markets, but with dramatically more downside resistance" (p. 103) and reports that industries that "create addictions seem relatively recession-proof" (p. 102) and profitable. Israelsen (2006) concludes that those who engage in socially responsible investing are "usually grounded in philosophical and social commitments rather than in raw performance"; however, those who "follow a moral mandate in their investing forgo impressive returns" (p. 103).

Should a Christian invest in "socially responsible" companies? Can a Christian invest in socially "irresponsible" companies? Statman (2005) notes that the "origins of socially responsible investing lie in religion" (p. 14). Mennonite Mutual Aid (2003) reports that for all investors "questionable business practices are more of a concern than traditional sin issues. . . however, religious investors were more adamant about traditional sin issues" (p. 4). Statman (2005) points out that "companies are arrayed on a continuum; no company is perfectly socially responsible or irresponsible" (pp. 17-18). Some socially responsible funds exclude companies that receive "any" revenues from certain products or services while other funds exclude only companies who earn "substantial" revenues (e.g. 20%) from certain products or services (Statman, 2006).

Halberg (2001) reports that the SMIF at Houghton College can only invest in stocks "that agree with the beliefs and standards of the college as stated in the Houghton College Endowment Objectives, Policies, and Guidelines handbook." For example, students screened stocks to "avoid investments in companies that are believed to derive a significant portion of their revenue from the following business: tobacco, alcohol, pornography, gambling, and abortion" (Halberg, 2001). Lemler (2006) compares early Christians decisions related to eating meat sacrificed to idols (1 Corinthians 8) with socially responsible investing and implies that a "strong" Christian can invest wherever they choose as long as they do not violate their own conscience. Lemler (2006) suggests that it would be easier to frame investing decisions by looking for good outcomes instead of listing restrictions and screening. The Anderson University Raven Investment Fund statement on social responsibility has attempted to take this approach:

> The fund seeks to promote In-vestment rather than Di-vestment. Di-vestment typically seeks to prevent investments in specific securities (e.g. gaming, alcohol, tobacco). Whereas, In-vestment seeks to frame the investment decision to determine if a given investment will lead to an overall improvement in society. The Raven Investment Fund will attempt to be socially responsible by making investments that change the world for the better. A student generated statement of social responsibility must be included with every recommended investment purchase proposal (Raven Fund, 2007).

Do student-managed funds conduct socially responsible investing strategies? Do SMIFs use screening? Participate in shareholder advocacy initiatives? Implement community investing strategies? Are funds operated at religiously affiliated institutions more likely to engage in socially responsible investing strategies? These are some of the questions that this study will attempt to answer.

METHODOLOGY

Neely and Cooley (2004) identified 128 universities with a SMIF. Burke (2005) and Sklaroff (2007) were used to determine whether or not an institution had a religious affiliation. Two sources were used in order to double check the accuracy of whether or not a school had a religious affiliation. Of the 128 SMIFs, 87 were operated at state universities, 24 at church-affiliated universities and 17 at independent universities. An e-mail was sent to the SMIF faculty sponsor for each of the 24 church affiliated and 17 independent universities. If an e-mail response was not received within, a week a phone call was made. If there was no answer, another e-mail was sent and a phone message was left indicating that I was requesting their response to a SMIF survey and they could call back or reply to the e-mail. If there was no response to the second attempt then a second phone call was made, and if there was no answer, another phone message was left.

Overall 15 of the 24 (63%) church affiliated and 11 of the 17 (65%) independent universities responded to the survey. Table 1 lists the 26 universities that are a part of this study. Also included in Table 1 is the year the student-managed fund was created. In order for the survey responses to be valid, it is important for the survey participants to have operated their fund for a number of years. The year of creation was included in the Neely and Cooley (2004) survey with the exception of Baylor, Iona, and Colorado. An e-mail was sent to the faculty advisor of these three schools to determine the year of creation for them.

Table 1: Church Affiliated and Independent Institutions with student-managed investment funds and Year of Creation	
Church Affiliated Institutions	**Independent Institutions**
Ashland University, 2000	Alfred University, 1994
Baylor University, 2001	Colorado College, 2004
Brigham Young University, 1984	Franklin & Marshall College, 1999
Creighton University, 1993	Illinois Wesleyan University, 1993
Gannon University, 1952	Jacksonville University, 1987
Iona College, 1980	Morehouse College, 1997
Lafayette College, 1950	Rice University, 1995
Loras College, 1998	Stetson University, 1981
Millsaps Collage, 1989	University of Richmond, 1993
Moravian College, 1962	Vanderbilt University, 1982
Ouachita Baptist University, 2000	Washington University in St. Louis, 1997
Southern Methodist University, 1983	
Texas Wesleyan University, 1998	
Trinity University, 1998	
Wartburg College, 1968	

Survey questions related to the fund size, whether or not socially responsible investment policies are implemented, and whether or not margin trading and derivative trading are implemented as investment strategies. The faculty advisor survey instrument is available in the appendix.

UNIVARIATE ANALYSIS

Table 2 reports the means for variables of this study broken down by church-affiliated and independent universities. Fund size is reported as the dollar amount of funds under student management. Table 2 indicates that the church-affiliated school funds in this sample are more than twice as large as the independent school funds in this sample ($1,534,313 vs. $705, 727). All other means reported are based on a 1 to 5 scale where 1 is strongly disagree, 2 is disagree, 3 is neutral, 4 is agree, and 5 is strongly agree. Also reported in Table 2 is the 2-tailed p-value for a non-parametric comparison of the distribution of responses between church-affiliated and independent schools.

The only statistically significant difference between church-affiliated and independent schools in Table 2 relates to the screening of alcohol related companies. In the case of alcohol corporation screening it is not so much that the church-affiliated schools screen more than the other categories, but rather that the independent schools do not screen alcohol-related corporations.

Table 2: Mean Comparisons

Variable	Total N = 26 Mean	Church Affiliated N = 15 Mean		Independent N = 11 Mean	Non-Parametric CA vs. I p-value
Fund Size	$1,183,758	$1,534,313	>	$705,727	0.44
Socially Responsible	3.0	3.2	>	2.8	0.44
Screening: Tobacco	3.2	3.4	>	2.9	0.37
Screening: Alcohol	2.7	3.1	>	2.2	0.09*
Screening: Gambling	3.0	3.2	>	2.8	0.42
Screening: Defense	2.3	2.3	=	2.3	0.75
Advocacy	2.5	2.3	<	2.6	0.65
Community Investing	2.6	2.3	<	3.0	0.13
Margin Trading	1.4	1.3	<	1.4	0.42
Derivative Trading	1.9	1.8	<	1.9	0.76

* Significant at the 10% level

A different way of looking at the survey responses is presented in Table 3. Table 3 lists the percentage of respondents who strongly agree or agree with the statements. Taken together, Tables 2 and 3 highlight four noticeable patterns. First, more than one in three schools (35%) engage in socially responsible investing strategies. Second, church-affiliated institutions are more likely to respond that they conduct screening activities. Third, independent schools are more likely to conduct advocacy and community investing strategies. Fourth, neither type of school is likely to engage in margin trading or derivatives trading as an investment strategy. In fact, the schools who did conduct some derivatives trading indicated that the few trades that were conducted were covered calls.

Table 3: Percentage of Respondents Who Strongly Agree or Agree

Variable	Total N = 26 % SA OR A	Church Affiliated N = 15 % SA OR A		Independent N = 11 % SA OR A
Socially Responsible	35%	40%	>	27%
Screening: Tobacco	38%	47%	>	27%
Screening: Alcohol	23%	33%	>	9%
Screening: Gambling	38%	40%	>	36%
Screening: Defense	8%	7%	<	9%
Advocacy	15%	7%	<	27%
Community Investing	15%	0%	<	36%
Margin Trading	0%	0%	=	0%
Derivative Trading	8%	7%	<	9%

MULTIVARIATE ANALYSIS

Additional data was gathered in order to control for institution type, size, revenue, wealth, and academic quality. IPEDS (2007) data was collected for full-time equivalent (FTE) students to proxy for institution size. Additionally, IPEDS data was collected for tuition and fees to proxy for institution revenue and endowment per student to proxy for institution wealth. The *U.S. News & World Report* 2008 edition of America's Best Colleges was used to gather data on institution quality (Sklaroff, 2007).

Upon investigation, it was noticed that 22 of the 26 schools in the sample were in the top tier of their respective university type (i.e. National University, Master's University, Liberal Arts College, Baccalaureate College). This did not allow for much room for multivariate distinction based on institution quality. Added to this are non-significant differences in FTE, tuition and fees, and the small overall sample (i.e. 26 schools). Thus, multivariate regressions (not reported) did not shed any insight into differences in the response patterns between religiously affiliated and independent schools.

LIMITATIONS AND AREAS FOR FUTURE RESEARCH

Sample size limitations make statistical comparisons almost impossible. Also, there are varying degrees to which the moral beliefs of the church with which an institution is affiliated affect investment choices and there are differing degrees of religious affiliation. However, the results do provide a snapshot of what religiously affiliated and independent colleges are doing. Thus, the results do provide a starting point of reference.

There is no theory-based reason for differences in the use of margin trading, derivative trading, or the size of the fund under student management between religiously affiliated and independent colleges. In these cases the combined results may be more meaningful. That being said, there appears to be a sizeable difference in the average fund size between religiously affiliated and independent colleges. To what extent the underlying institutional endowment, longevity of the fund's existence, and other factors affect fund size is a question that could be addressed in future research.

CONCLUSION

The use of student-managed investment funds provides a dynamic, hands-on, way for finance students to learn investing strategies and techniques. The use of socially responsible investing strategies is one way to make the application of ethics into investment decision making more intentional. The results of this paper indicate that, overall, just over one in three church-affiliated and independent colleges conduct some form of socially responsible investing strategy in the running of their student managed fund. Church-affiliated institutions seem more likely to conduct screening activities. Independent institutions seem more likely to conduct advocacy and community investing strategies. Neither type of school is likely to engage in margin trading or derivatives trading as an investment strategy.

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APPENDIX:

Survey Instrument

1. What is the total dollar amount of funds under student management at your university?

Please respond with your level of agreement for each of the following statements using the following 5 options:

- Strongly Agree (SA)
- Agree (A)
- Neutral (N)
- Disagree (D)
- Strongly Disagree (SD)

2. The student-managed investment fund intentionally implements socially responsible investing strategies.
3. The student-managed investment fund intentionally does not invest in corporations involved in the production or retailing of tobacco.
4. The student-managed investment fund intentionally does not invest in corporations involved in the production or retailing of alcohol.
5. The student-managed investment fund intentionally does not invest in corporations involved in the production or retailing of gambling.
6. The student-managed investment fund intentionally does not invest in corporations involved in the production or retailing defense/weapons.
7. The student-managed investment fund implements socially responsible shareholder advocacy initiatives.
8. The student-managed investment fund implements socially responsible community investing strategies.
9. The student-managed investment fund implements margin trading as an investment strategy.
10. The student-managed investment fund implements derivatives trading as an investment strategy.