ADVISERS' VOICES

DAVE MCCABE

SRI BECOMES MORE NUANCED

Ten years ago, the goal of socially responsible investing was to simply screen out or divest portfolios of objectionable companies. It has evolved since then and today the approach to socially responsible investing (SRI) is a more positive one—to help investors make financial decisions that reflect their morals and, in many cases, inspire positive policy changes at large companies.

The shift is due in large part to the fact that evaluating companies from a socially responsible perspective has become far more nuanced in recent years. The definition of an eligible company is no longer as black or white as it once was.

As investment managers continue to develop metrics that allow us to measure and compare a company's social impact and value, investors are being given more power to make informed and sophisticated decisions about where to put their money.

We had a client recently who didn't want to own any company involved with the sale of alcohol. However, one of the companies that we own universally across our portfolios was identified by a traditional SRI screen as having alcohol exposure.

In the past, that would have barred the company from consideration. But with the information available today, we dug deeper instead of immediately discounting the opportunity.

We looked at the company's SRI rating, which was prepared by a third-party resource. Then we looked at where exactly the company's exposure to alcohol was and what those sales were as a percentage of total revenue. In the end, the client decided to go with the investment.

Another example: Ten to 15 years ago, there weren't many environmentally conscious investors willing to invest in a chemical company. But with the information available today, it is possible to identify the leading chemical companies in terms of sustainability and responsible practices. By promoting those values with capital, investors potentially can change the industry for the better.

Mr. McCabe is president of Eaton Vance Investment Counsel and Eaton Vance Trust Co. in Boston. He can be reached at **reports@wsj.com**.

Time to Bet on the Bitcoin?

Cryptocurrencies are not for the faint of heart, but some investors may be intrigued

BY JAVIER ESPINOZA

FOR SOME INVESTORS—those with stomachs for volatility—it may be time for a closer look at cryptocurrencies.

By now, most investors have heard of bitcoin, following its phenomenal growth last year. Bitcoin, an electronic currency made by computers creating series of unique numbers through complex math problems, is sold on unregulated exchanges and accepted by a growing number of individuals and businesses because of the speed and low cost of transactions.

One bitcoin was valued at virtually nothing in the early days and now costs around $437, as of Sept. 18. Other crypto coins tend to have less value, but cryptocurrencies in general are drawing increasing interest as potential investments.

CoinDesk, an online publication that tracks digital currencies, estimates by the end of this year there will be eight million bitcoin trading accounts, known as "wallets," and 100,000 companies that accept bitcoin.

There have been notorious security breaches, including the loss of half a billion dollars worth of bitcoin at Mt. Gox, formerly the largest bitcoin exchange, which filed for bankruptcy protection. But supporters say it's a misunderstanding to see such cases as a weakness in cryptocurrencies.

Campbell R. Harvey, a professor of finance at Duke University in Durham, N.C., says the Mt. Gox loss exposed a lack of security at the exchange itself. "Blaming bitcoin for the Mt. Gox bankruptcy is like blaming the U.S. dollar for the downfall of Lehman Brothers," he says.

John Normand, head of foreign exchange and international rates strategy at **J.P. Morgan Chase** & Co. in London, called bitcoin "vastly inferior" to traditional currency in a report earlier this year. "Bitcoin is currency with high return potential but also high volatility and low liquidity," he said in an interview, advising institutional investors to steer clear.

Individuals, however, should decide for themselves, he added, whether the return prospects "justify its illiquidity and volatility,"

Here's what potential investors should know about cryptocurrencies.

New Money

The top cryptocurrencies by market capitalization

BITCOIN (BTC)
MARKET CAP: $5,809,433,060
PRICE: $437.32
AVAILABLE SUPPLY: 13,284,200
FACTS: Supply is limited. Coins are created by mining, or the use of computers to solve mathematical problems.

LITECOIN (LTC)
MARKET CAP: $158,746,121
PRICE: $4.94
AVAILABLE SUPPLY: 32,143,496
FACTS: Supply is limited. Uses the same protocol as bitcoin but transactions are confirmed four times faster.

RIPPLE (XRP)
MARKET CAP: $150,831,949
PRICE: $0.005203
AVAILABLE SUPPLY: $28,989,252,282
FACTS: Supply is limited. Its protocol enables the free and instant (less than six seconds) exchange of any store of value (dollars, euros, bitcoins, gold, loyalty points). Doesn't require mining.

BITSHARESX (BTSX)
MARKET CAP: $61,824,399
PRICE: $0.030914
AVAILABLE SUPPLY: 1,999,883,512
FACTS: Each unit of BitSharesX represents shares in future companies, which will be distributed at the time of their creation.

PEERCOIN (PPC)
MARKET CAP: $39,033,405
PRICE: $1.80
AVAILABLE SUPPLY: 21,738,000
FACTS: Derived from the same protocol as bitcoin. Supply is limited.

Note: Prices as of Sept. 18

Source: Coinmarketcap.com

The Wall Street Journal

Some Bitcoin Basics

Unlike dollars or any other traditional currencies, bitcoins aren't printed or backed by a central government. They are created by individuals and businesses using high-powered computers. Creators of bitcoin are allowed to keep some of what they create as payment for the service. The rest is sold on unregulated exchanges.

When you buy a bitcoin, what you get is two strings of numbers called a public key and a private key. For encryption and convenience purposes, the numbers are often expressed as letters and digits. The public key is the number a person must know in order to send you bitcoin. The private key is the number that only you are supposed to know.

By "signing" a transaction with your private key, you authorize the movement of all or some of the bitcoin from your virtual wallet into another.

All such bitcoin movements are instantly published in a ledger so that anyone can keep track of the overall money supply. The ledger floats on some version of the Internet cloud as a collaborative document rather than a centrally managed account. Users have adopted this mechanism for shopping, transferring money and speculation.

For users, the perceived value of a cryptocurrency is perhaps best understood as the price of a tool in limited supply. Demand is fueled by parties interested in peer-to-peer forms of payment that don't involve banks and other intermediaries, making such payments cheaper and faster.

For investors, meanwhile, a cryptocurrency becomes attractive the more popular it proves to be among users. Say bitcoin becomes the most popular way for Filipinos working in the U.S. to send money home. The increase in demand for the relatively scarce strings of numbers will drive up bitcoin's value, analysts say.

On the other hand, if one cryptocurrency supplants another, or if peer-to-peer finance proves to be a flash in the pan, then a bitcoin will be just another meaningless string of alphanumeric code floating around on the Internet.

Some have argued that the opportunity for individual investors in cryptocurrencies has passed, since large hardware is now available for large investors to purchase and mine coins on a much faster, larger scale. "It has become less of a hobby and more of a business for people requiring constant investment and careful attention to margins and costs," says Hansel Dunlop, a London-based developer and early acquirer of bitcoin.

Know Your Bitcoin vs. Litecoin

Other currencies have developed out of the bitcoin technology and have added improvements on that platform, explains Mr. Dunlop. The differences are nuanced, he says.

For example, Litecoin, the second-largest cryptocurrency in terms of market capitalization, offers a more complex problem to solve and is therefore more difficult to "mine," or create. Others, like Ripple, are not minable but can be acquired at cryptocurrency exchanges.

To Some, Companies Are Key

Investors don't have to mine coins or speculate on the exchanges to make money in cryptocurrencies. Some observers recommend investing in companies that use or service cryptocurrency and other peer-to-peer payment forms.

These include companies that process payments, such as Colored Coins or **Ripple Labs** Inc., with open-source protocols that allow users to trade anything of value instantly online for virtually no cost. These firms are in the early stages of development and so, by and large, are not publicly traded.

James Rickards, a financier and author, says he sees potential in technologies that process faster, cheaper and more transparent exchanges that go beyond trading money. Companies using these new technologies, he says, "allow consumers to buy products or to send payments in seconds at a fraction of the cost" of regular currency.

Jeffrey Robinson, author of a critical book about bitcoin, also says investors should be looking at these kinds of companies rather than cryptocurrencies themselves. Says Mr. Robinson, "This is not a commodity buy, but it's a technology buy."

Chris Larsen, chief executive of Ripple Labs, says cryptocurrencies are just the start of a wider technological revolution. Mr. Larsen says he envisages the Ripple protocol being used to exchange anything of value—from currencies to airline miles—instantly at a fraction of current fees.

Remember the Risks

Despite the excitement, keep in mind the risks. Cryptocurrency can be highly volatile and illiquid, says Duke University's Mr. Harvey. The relatively limited market capitalization of bitcoin means it may be difficult to sell in large amounts without seeing a negative impact on the price, he says. Bitcoin's market cap recently was about $6 billion.

"Bitcoin was never meant to be a speculative investment vehicle," he adds. "Bitcoin's main purpose is to enable the efficient exchange of property via minimal transaction costs and a high level of security."

Mr. Espinoza is a reporter with the Wall Street Journal in London. Rob Curran contributed to this article.

ALTERNATIVE INVESTING | GREGORY ZUCKERMAN

ETF Ideas for Banks in a Rising-Rate Environment; Investments That Take Advantage of Companies' Tax Inversions

Are there attractive exchange-traded funds covering banking that might perform well in a rising-interest-rate environment? Should I sell bank shares now ahead of rising rates?

TOM ROBERTS
Henderson, Texas

The Federal Reserve is likely to begin raising rates by mid-2015, and it's time for investors to start preparing, especially those who own bank shares. The recent lid on rates, and other Fed policies, have been crucial reasons why banking shares have soared 58% since the beginning of 2009, according to the KBW Bank Index. But if rates are heading higher, these shares could experience headwinds.

Banks often profit by borrowing at low, short-term rates and lending at higher rates. As a result, rising rates can drag on profits for some institutions—especially if short-term rates rise faster than longer-term rates.

Chuck Self, chief investment officer of iSectors, an ETF investment strategist, says that as interest rates rise, some potential borrowers "can no longer afford the cost of borrowing." That reduces overall loan demand for banks.

But he and other financial advisers say it's a mistake to exit bank-related investments, especially for a long-term holder. The Fed may take longer than some expect before making a move. And rates likely will remain historically low for some time.

Further, rising rates likely will indicate that the economy is strengthening, improving the credit quality of borrowers and leading to fewer missed loan payments, argues Carin Pai, director of equity management at **Fiduciary Trust Co. International**.

These pros say investors should adjust their bank holdings, not dump them. Regional banks, for example, get a lot of their profits from loans, and so stand to gain from wider net-interest margins. Large, money center banks, by contrast, tend to have more trading operations, brokerage and other business.

That's why Scott Miller Jr., a managing partner of Blue Bell Private Wealth Management LLC in Blue Bell, Pa., recommends shifting to regional banks. He has been putting clients in SPDR S&P Regional Banking ETF, an ETF that tries to track the performance of 80 regional banks. The fund is down 3.4% so far this year.

Ignacio Pakciarz, chief executive of **BigSur Partners**, also recommends investments in regional banks, arguing that they will see "very strong" dividend growth over the next few years, a key driver of stock performance. He likes SPDR S&P Regional Banking in part, he says, because 97% of its exposure is to regional banks, unlike "other regional banking ETFs" that also have exposure to savings-and-loans and other financial firms.

Ethan Powell, Highland Capital Management's chief product strategist, recommends ETFs that focus on leveraged loans, which are loans to growing companies that often have lower credit ratings. These loans carry attractive yields and benefit from the improving quality of borrowers. And since rates on these loans "float," or adjust along with interest rates, the value of the bank loans won't be hurt very much if interest rates start climbing.

"With rates that adjust periodically, floating-rate loans offer investors an alternative method of earning higher yields with little or no interest-rate risk," says Mr. Powell. "Even though the loans are issued by below-investment-grade corporations, they have seniority over other forms of equity and debt in the event of default."

* * *

Are there ETFs or other ways to take advantage of tax inversions, or is it too late?

Inversions, in which a U.S. company moves its tax address to a tax-friendlier country, are among the hottest strategies in corporate America. Sometimes this has resulted in lucrative takeover bids that have driven up stock prices of both buyers and sellers, especially in the pharmaceutical business.

To take advantage of the trend, Mr. Powell recommends **IQ Merger Arbitrage ETF**, which tracks a merger arbitrage index. The fund seeks to achieve capital appreciation by investing in global companies that have been publicly announced as objects of a takeover.

"This strategy benefits from an increase in merger activity attributable to companies that are entering into mergers designed to relocate taxable operations," says Mr. Powell.

Sebastian Mercado, ETF strategist at **Deutsche Bank**, says health-care and technology companies could change national domiciles "should U.S. repatriation taxes remain onerous for the foreseeable future." That's why his bank recommends ETFs tracking larger companies in these sectors, the type of company more likely to make these moves due to global operations. One example: **Health Care Select Sector SPDR ETF**, which is up 16% so far this year, and Vanguard Information Technology ETF, a technology-focused ETF up over 13% this year.

Ms. Pai of Fiduciary Trust says, "I do think the trend for tax inversions will continue for a bit longer," partly because tax reform likely won't take place until next year or later. She also points to health-care and tech stocks as beneficiaries, because these sectors "are full of companies with large sums of foreign cash that they would like to make use of."

But use caution when employing an inversion-investing strategy. Members of both political parties worry about the long-term impact on the U.S. economy and the tax base if the wave of inversions continues. Lawmakers are discussing legislation to restrict inversion deals.

Mr. Zuckerman is a reporter for The Wall Street Journal in New York. He can be reached at greg.zuckerman@wsj.com.