

WALL STREET JOURNAL

The Payoffs of Investing Locally

It can be worth it both financially and personally, but there are risks.

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Updated Aug. 15, 2014 4:45 p.m. ET



Guayaki, an organic beverage firm in Sebastopol, Calif., is among the companies invested in by a fund that one wealth manager suggests for clients looking to support small local businesses. *Alamy*

Like fans of the farm-to-table movement, some investors are looking to plant seeds of growth in their own backyards by putting money into local businesses and development projects.

The move can pay off both financially and personally, experts say. But as with many investments, success often demands carefully reviewing potential investments to find worthwhile opportunities and avoid potential pitfalls.

Investors also should avoid taking on too much risk close to home, advisers caution, because the financial well-being of many people already is closely linked to the real-estate market and the economy where they live.

Deborah Frieze spent a decade working with local communities on economic and environmental challenges in Brazil, Zimbabwe and elsewhere. When she returned full-time to Boston in 2010, she looked for investment opportunities, but pickings were slim. One

"exciting local thing" she found was promissory notes issued by Boston [Community Capital](#), [ALBY -20.00%](#) a nonprofit, to finance affordable housing.

A friend who is a financial adviser vetted the investment, and Ms. Frieze, who is 44 years old, bought \$50,000 of the five-year notes, which pay 4.25% in annual interest and represent a small part of her investment assets. "It's doing great things in my backyard," she says.

A spokeswoman for the nonprofit says 90% of the investors are individuals, mostly from Boston or elsewhere on the East Coast.

Ms. Frieze also helped found the Boston Impact Initiative, which provides loans and direct investments to firms in the region, ranging from a clothing manufacturer to a recycling cooperative. It aims to open to outside investors down the road.

"I am no longer interested in traditional investment objectives," says Ms. Frieze, a former tech executive. "It's maybe a bit more radical, but I really believe we need to put our financial resources in our communities."

Investors seeking to have an impact close to home generally favor local businesses or firms that create jobs in their communities, advisers say.

"They want to do something they can touch, that feels closer to them," Patricia Farrar-Rivas, chief executive of Veris Wealth Partners, a firm in San Francisco that manages some \$650 million.

That can pose challenges, if the prospects of the business are harder to analyze than a publicly traded company. "We are wealth managers, we are not organic farmers," Ms. Farrar-Rivas tells clients who want advice on investing in Bay Area farms.

Ms. Farrar-Rivas recommends the RSF Social Investment Fund to clients looking to support small local businesses, though the returns are often lower than other fixed-income investments. The fund makes loans to firms in California and elsewhere, including Guayaki, an organic beverage firm in Sebastopol, Calif.; a food store in Fairfax, Calif.; and various Waldorf schools, part of the movement founded by Austrian philosopher Rudolf Steiner.

The annualized yield on the 90-day investment notes issued by the RSF fund has averaged 0.53% over the past year, according to its website. The minimum initial investment is \$1,000.

Douglas Wolford, president of Convergent Wealth Advisors, helps clients evaluate investments in local hotels by putting them in touch with auditors and lawyers who can help vet the deals.

A typical deal might require a five-year commitment and offer the potential of an average return of 12% annually, he says, though such deals also can come with considerable risk.

Mr. Wolford urges clients to allocate less than 5% of their investments to local businesses. "For a relatively small percentage of the portfolio people get a disproportionate amount of psychological satisfaction," he says.

Questions about direct investments in local firms are "getting to be almost a daily thing," says Mr. Wolford, whose firm, based in Potomac, Md., manages \$8.5 billion in assets.

Other investors are content to put money into large publicly held companies that are based in or expanding where they live, which is much simpler.

Ms. Farrar-Rivas says some West Coast clients invest in [Sysco Corp.](#) [SY Y -0.19%](#) because the Houston-based firm provides food for large employers in Silicon Valley and buys from local farmers.

Smaller companies also sometimes attract local investors. Michael Ardoin, a lawyer in Lafayette, La., holds about 200 shares in [Stone Energy Corp.](#) [SG Y -0.58%](#), an oil-and-gas exploration company based in his hometown. Stone Energy "is supporting local workers and you want to see people do well in your community."

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