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Forget globalization. Here's how to profit from 'localization.'

How ethical investors can get involved in this trend.

Many things aren't made in the US anymore, as any Wal-Mart shopper knows. But slowly, some consumers are rebelling against this globalization. Some look to buy foods produced within 150 miles of their homes. Others avoid big-box stores to patronize local retailers. Some investors are also eyeing ways to get involved in the go-local movement. Is it time for you to jump in? The Monitor's Laurent Belsie recently talked with two experts: John Katovich, chief legal officer of the Boston Stock Exchange, and Elyse Cherry, president of the Boston Community Venture Fund. Here's an edited transcript of their comments:

Elyse, why do so many people feel its ethical to go local?

Ms. Cherry: Many people who participate in the world today recognize that while globalization is with us and, in fact, may have many, many benefits, the benefits and burdens of globalization are not equally shared. And I think that there is a concern to be certain that local communities are not inappropriately burdened with the effects of globalization. And so, often in an attempt to create vibrant, diverse local communities, people attempt to invest locally.

Is this a movement that ethical investors should pay attention to?

Mr. Katovich: I think it is. There are a number of people that have been thinking quite a bit about how to get investors to invest locally. But it's really the investors that have to look at themselves and think about what it is that they want and expect – and whether they might be satisfied investing locally, even if it meant possibly having slightly less return.

If they accept lower returns, where would they invest?

Cherry: For an average investor, one great way to invest is to seek out your local community loan fund. That's a debt instrument rather than an equity instrument and it does tend to have a somewhat lower rate of return – although, frankly, these days not really less than a CD. And it's a great way to go out and invest in housing or charter schools or child-care facilities or inner-city real estate. And the risk on those investments is extremely low. We've done probably a quarter billion dollars of investing and our losses are less than a 20th of 1 percent.

Where can you find out about the loan funds?

Cherry: There's a national association called Opportunity Finance Network and you can find a loan fund in virtually any state – and often several in a state.

Suppose I want to invest in, say, a local hardware store.

Katovich: There was a day when you could do that. [But] the day came when federal laws changed that scenario and required you to become an accredited investor in order for you to invest in a private company.

An accredited investor means having how much money?

Katovich: A two hundred thousand-dollar income; $1 million dollars in net worth. It could be a $300,000 [net income] with a spouse.

You're working to change those rules.

Katovich: Yes, we have been working for a couple of years on attempts to find an approach that would allow small investors, nonaccredited investors, to be able to invest in local issues much like they invest in publicly traded issues today.

Cherry: We also have been looking at ways to achieve local investment. And we've really been thinking about it from the perspective of aggregating our venture fund investments with other investments across the country and creating an investment vehicle sufficiently large to be traded on a national exchange. So people in fact could invest just like they do today, but it would be ultimately into companies that are investment vehicles for community-based venture funds.

Like a mutual fund?

Cherry: It could be. [But] there are many issues associated with any of these vehicles…. Part of it is you need to have a sufficient number of shares trading…. The other thing I would say is that equity investments are complicated investments. And when you have small local entrepreneurs, they're often not so sure that they actually want an equity investor in bed with them. It often means sharing control.

Why does investing locally mean lower returns?

Katovich: What many [small companies] that we've talked to would prefer, if there were such a vehicle, is an easier approach to be able to go public in a way that provides safe, secure opportunity for local investors to invest in their company. [But] there is less liquidity when that occurs. And as a result of that, the expectations of the investor have to be quite different. Our thinking around this is that this is not an answer for retail private investors for all of their funds. But it could be a very interesting answer for a small portion of their funds.

How soon might average investors see such options?

Cherry: I think we're a distance [away] for a couple of reasons. Investing in small business is a pretty risky undertaking…. It's important for people not to underestimate the risk of that. In fact, the reason that loan funds and community venture funds got started in the first place was because individuals were out putting their money into companies and promptly losing it…. I also would say: Ethical investing is not necessarily local investing…. I'm reminded of a company that I visited several years ago in the southeast corner of our state that was running such a sweat shop that they couldn't get people to come work there because the folks down there thought McDonald's was a better deal -- gave them more money, better benefits, and better working conditions. So I think the critical issue with respect to ethical investing is to invest in companies that produce a good quality good or service, that have good employment policies and so forth, and are generally ethically run – whether global or local.