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NEWS UPDATES

Charities Brace for Challenges From Jittery Stock Market

By Elizabeth Schwinn

The volatile stock market has not yet caused any major problems for charity fund raising, but experts warn that continued ups and downs or a sharp drop in stock values this fall could hurt nonprofit groups — especially since some charities raise the bulk of their donations in the last quarter of the year.

“A big market downturn would certainly pose problems for both capital campaigns and big grant requests,” says Melissa A. Berman, president of Rockefeller Philanthropy Advisers, a New York nonprofit group that helps foundations and wealthy donors manage their giving.

What’s more, she says, “there could be trouble ahead for charities even without a sharp dip in stock values. The real challenge is intense market volatility, which creates a lot of uncertainty. Uncertainty makes many people hesitate to make a commitment.”

Problems in the housing market, including an increase in the number of home foreclosures have caused jitters in the stock market, with the Dow Jones industrial average plunging by 1,000 points or more on a single day in August and stock prices declining by as much as 10 percent.

Some fund raisers are bracing for the possible impact of an economic downturn.

“Since more giving happens in the last quarter, the timing isn’t great,” says Bruce Flessner, a Minneapolis fund-raising consultant who is now advising three nonprofit institutions that are each seeking at least $1-billion in capital campaigns. Such campaigns rely heavily on multimillion-dollar gifts, and trouble in the stock market sometimes makes donors less willing to commit to making such large donations, he says. In other cases, donors delay making a decision to donate a large sum.

So far, however, Mr. Flessner and other fund raisers say they have seen little hesitation from donors.

“In the big picture, this is not a major philanthropic crisis,” says Charles W. Collier, a fund raiser at Harvard University who works primarily with wealthy donors. Indeed, he adds, many stocks have held onto their June and July highs.

“None of my donors have pulled back,” saids Paul Shoemaker, executive director of Social Venture Partners, in Seattle,an organization that raises money from wealthy donors to finance local charities. “I think people can absorb a little bit of turbulence or decline, as long as it doesn’t go on too long or drop too far.”

Not as Bad as 2001

If there is a downturn, it is unlikely to be as severe as the 2001 recession, when giving declined, says Richard T. Jolly, chairman of the Giving USA Foundation, which publishes an annual tally of philanthropy.

“It’s more traditional to see a flattening, or slower rate of increase, in giving,” he says.

What’s more, most wealthy donors will not be seriously hurt by the bursting housing bubble, says H. Peter Karoff, founder of the Philanthropic Initiative, a Boston nonprofit group that counsels individual, family, and corporate donors. Unlike the 2001 stock-market drop, when many newly made millionaires saw their technology fortunes shrink significantly or disappear, he said, relatively few wealthy people have their fortunes tied up in housing.

“The portfolios of the rich and famous are well protected against these kinds of situations,” he says.

Still, the impact of a declining market could be sharp for certain donors, says Mr. Collier of Harvard.

“More and more of our younger donors, 50 and under, are typically in venture-capital or private-equity hedge funds,” he says. Those investment funds have suffered the most serious losses in the financial tumult of recent weeks.

Giving to New York charities might also be dampened, given that the city is home to many of the nation’s big financial-services companies. But, as in other parts of the country, New York charities say Wall Street’s recent ups and downs haven’t caused widespread problems yet.

“The financial community is a huge part of philanthropy in the New York area,” says Miles Ahmend, director of development for the Trinity School in New York, and vice president for communications at the Association of Fundraising Professionals’ New York chapter. “But people’s sense is that the market’s reacting to a particular sector. It doesn’t impact everybody. It’s not like a complete market downturn, where everybody clutches their throats and watches numbers spiral down.”

Meanwhile, many fund raisers are continuing to watch the economic news carefully.

“The big unknown is if banks become less aggressive in loaning money to corporations,” says Robert W. Paddock, a former stockbroker who is now vice president of development at the Greater Houston Community Foundation. If corporations have more difficulty getting loans, that could have a domino effect, causing the overall economy to slow and the market to slide, he said.

Mr. Paddock says that a broad decline in the stock market could cause the value of its endowment — which is heavily invested in stocks — to drop and that could mean the organization has less to give away next year. The impact on donors is less clear, he says. “It depends: If the market declines by 5 percent, there’s really no impact. If it declines by 20 percent, they’re less likely to give.”