

The Future of Green Investing

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How about a little green in your portfolio? Investing with an eye toward protecting or improving the environment is one of the principal objectives of values-conscious investors: those engaged in what has commonly come to be known as socially responsible investing or "SRI."

A Brief History

SRI has been around for millennia, with its origins in the religious practices of believers in the scriptures of both the Old and New Testaments. Through *tzedakah* or "giving," Jewish tradition plays a significant role in shaping our ethical relationship with the commercial and economic world. Likewise, the Methodists and the Quakers have employed social screens for centuries to eliminate from their portfolios companies facilitating violence against fellow human beings.

The modern incarnation of SRI has its roots in the changing social awareness of the 60's and the incorporation of the fruits of those battles in the 70's and 80's on issues such as civil rights for minorities, equal rights for women, and working conditions for shop laborers.

Environmental concerns began to permeate SRI with the advent of nuclear power and its consequences and with nervousness about the deleterious effects of extracting energy sources from the earth. Crystallizing these concerns were the incidents at Chernobyl and with the Exxon Valdez.

Summary: Future of Green Investing

Socially Responsible Investing "SRI" portfolios employs three basic strategies: screening, shareholder advocacy and community investing.

Global climate change, social unrest abroad, the exportation of jobs from home: what types of business risks could "green" investing protect your portfolio from, and will it work?



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How's It Done

SRI employs three basic strategies: screening, shareholder advocacy and community investing.

Screening includes both additions (positive) and subtractions (negative) to a portfolio to reflect the investor's values, in addition to the ordinary financial analysis that goes into assembling a portfolio:

- Positive screening: including companies believed to be making positive contributions.
- Negative screening: weeding out companies deemed to be harmful.

Shareholder advocacy involves investor/management dialogue and shareholder resolutions to steer companies toward becoming better corporate citizens:

- Acknowledgment that there are no perfect companies—only shades of gray.
- Permits investors to include companies that are not great, but good enough for now.

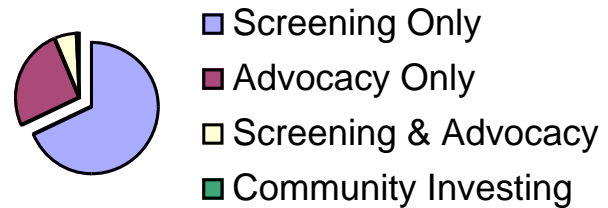
Community investing provides capital at below market rates to disadvantaged communities who are shut out from traditional capital markets.

- Serves local, national and international markets.
- Supports affordable housing and seed capital through *micro finance* to entrepreneurs creating jobs in developing markets.
- Returns are typically competitive.

According to the latest trends report by the Social Investment Forum (www.socialinvest.org), today there are \$2.29 trillion invested in SRI—nearly 10% of all assets under professional management. The ma-

majority of those portfolios employ screening as a minimum strategy (see chart).

2005 SRI Investments by Strategy



Access to SRI is increasing, with over 200 SRI mutual funds available. Plus, many employers now offer SRI choices in the company 401(k). An excellent resource for information—or to find an SRI advisor—is Colorado-headquartered First Affirmative Financial Network (www.firstaffirmative.com).

Environmentally Responsible Investing: Two Approaches

Environmental or “green” investing typically comes down to either negative or positive screening. Negative screening leads to avoidance of companies with poor environmental records. Positive screening is proactive, seeking out companies developing or utilizing new technologies for creating a cleaner environment.

As portfolios are assembled across various industries, negative or avoidance screening dictates that only those companies with good environmental and sustainability records are included—or those that are actively changing their practices and policies to become sustainable.

For example, utilities relying on natural gas and adding renewables would be accepted, while those powered by nuclear, coal and oil would likely be excluded. Similarly, companies

producing ozone depleting chemicals or agricultural agents with dubious records would be excluded from green portfolios.

Global climate change has been identified by investors—and many companies—as one of the major business risks in the world today. The Investor Network on Climate Risk (www.incr.com), in conjunction with Ceres (www.ceres.org) recently published the *Investor Guide to Climate Risk*, to identify the ways in which investors, trustees, plan sponsors and fund managers can reduce such risks and find investment opportunities posed by the climate change dilemma. In addition, the Global Reporting Initiative (www.globalreporting.org), an affiliate of the United Nations, has established globally applicable sustainability reporting guidelines for measuring company environmental performance.

Clean Technology: Investing in the Future

Well before President Bush admitted our nation's addiction to oil, aggressive investors began pouring money into alternative energy. As prices of fossil fuels have reached record levels, it has become increasingly economical to produce renewable sources such as wind and solar. And, prices of some small company stocks related to solar have doubled and even tripled in the last couple of years.

Large companies, such as General Electric, have been investing in alternatives as well. Wind, “clean” coal and photovoltaics are a centerpiece of the company's recently announced Ecomagination® initiative.

But we may have seen this movie before. High technology is extremely volatile and tends to attract and then repel the hot money. Individual names can be particularly risky. Perhaps the safest way to invest in alternative energy is

through a mutual fund with a diversified portfolio such as the New Alternatives Fund (NALFX) or PowerShares WilderHill Clean Energy Portfolio (ECO), an exchange traded fund that tracks the WilderHill Clean Energy Index.

And, prudent investors must pick their spots. Volatile sectors should never represent more than a small fraction of a broadly diversified portfolio.

The Myth of Underperformance

Clearly, SRI investors do not *necessarily* under-perform traditional investors in their returns. The annual lists of best performing mutual funds almost always contain the names of several SRI managers. Plus, academic research has consistently refuted performance loss.

But, the jury is still out on whether, over long periods and through different kinds of markets, returns will be equivalent. That's because the available data only span a couple of decades, as opposed to the 70-plus years' worth of data for the market in general.

During the growth stock led 1990's, SRI managers kept up and frequently beat their traditional counterparts. In the first half of this decade, however, in which the markets have been led by value stocks—think actual smoke-stack industries—and by energy and emerging markets, achieving equal returns has been a challenge.

Nevertheless, enormous resources and talent now exist among SRI money managers. For investors seeking to align their investments with their values—environmental or otherwise—choices abound.