

# Investing **Green** for Growth

THE STOCK MARKET HAS STAGED AN IMPRESSIVE RECOVERY SINCE MARCH EVEN AS THE ECONOMY CONTINUES TO SHOW ONLY ANEMIC IMPROVEMENT. INVESTORS ARE LOOKING TO THE FUTURE IN SEARCH OF WHERE THE OPPORTUNITIES FOR CONTINUED GROWTH MAY BE. ONE TREND THAT HAS BEEN PAYING OFF HANDSOMELY THIS YEAR IS "GREEN INVESTING."

**In my May 2009 article, *Obamanomics – Change Has Come to America*, I discussed green energy as one of the four major themes of the Obama Administration. According to *BusinessWeek* magazine, "green" mutual funds have outperformed the Standard & Poor's 500-stock index by a factor of three to one this year.**

Individual beliefs on what constitutes a green investment are quite varied. Generally, we consider any underlying business that is involved in operations aimed at improving the environment as meeting the definition. The more speculative investments are those start-up companies that are developing new methods for creating biofuel or solar panels. Examples: D1 Oils (OTC – DOOIF) is one of the largest biodiesel fuel developers in Great Britain and First Solar (NASDAQ – FSLR) is a Tempe, Arizona-based leader in solar energy. Less aggressive positions would be large companies that are expanding their product lines to include environmentally friendly products.

There are three ways to participate in the green sector as an investor: buy individual stocks, invest in Exchange Traded Funds (ETFs) or invest in open-ended mutual funds.

**Individual Stocks/Pure-Play Opportunities** – Choosing individual stocks is the most aggressive way to

participate. Pure-play opportunities are companies that engage in eco-friendly efforts as part of their primary business. A myriad of new technologies from energy to water is being developed by many small companies.

Examples: the solar sector has been extremely popular. Start-up companies such as Trina Solar (NYSE – TSL) and Ascent Solar (NYSE – ASTI) have already had big moves this year. ASTI and the aforementioned FSLR are both up more than 400 percent in 2009.

Wind power, which has not been as popular among investors this year, still offers attractive valuations. Vestas Wind Systems (VWS.CO), AeroVironment (NASDAQ – AVAV) and Otter Tail Corp (NASDAQ – OTTR) are among the leaders in wind power energy.

**Individual Stocks/Large Companies** – A less aggressive way to buy individual stocks and still be green is to choose major corporations that are developing green technologies to add to their product lines.

Examples: Hewlett Packard (NYSE – HPQ), which has a long history of recycling – back to 1987 – owns recycling plants. Archer Daniels Midland (NYSE – ADM) is a large producer of ethanol-based fuels. (Ethanol is a fuel that can be made from corn.) Pepsi (NYSE – PEP) has committed itself to using more solar energy and has purchased renewable energy credits. The company is also promoting recy-

cling both in its plants and among its customers.

**Exchange Traded Funds** – ETFs are mutual funds that trade on an exchange like common stocks. One of the major advantages is that you get instant diversification when you buy one ETF. Instead of trying to determine if you want to invest in wind or solar, biofuel or fuel cells, and then trying to figure out which company to own in each of those industries, you can invest in an ETF that owns them all. ETFs provide a wide variety of strategies that allow you to choose how to participate in the green sector.

Examples: PowerShares WilderHill Progressive Energy Portfolio (NYSE – PUW) invests in common stocks of companies principally engaged in the progressive-energy business. It is one of the best-performing ETFs in the green sector this year.

Elements Credit Suisse Global Warming Index ETN (NYSE – GWO) participates in the performance of a selection of companies that have a focus on products or services related to minimizing global warming. This ETF has a broader participation in green sectors than just energy.

For even broader diversification, iShares KLD Select Social Index (NYSE – KLD) selects green companies from the Russell 1000 and S&P 500 indexes.

**Open-Ended Mutual Funds** – One important difference between open-

ended mutual funds and ETFs is that most mutual funds are actively managed while most ETFs seek to track an index. Also, the expenses are usually higher in a mutual fund because a manager must be paid. Hopefully, that manager is covering the additional expense through his or her expert selection of stocks to hold in the fund.

Examples: because of its dedication to green investing over the past 25 years, Winslow Green Growth Fund (WGGFX) is recognized as a pioneer in the field of green investing. The fund invests primarily in companies with clean and efficient business practices that seek to minimize their environmental impact. The fund is diversified over size but intends to invest a significant portion of its assets in small companies that would be characterized as pure-play.

For a worldview of green, consider New Alternatives Fund (NALFX). The fund seeks long-term capital appreciation by investing in common stocks of companies that provide a contribution to a clean and sustainable environment and produce or market environmentally grown food. The manager seeks companies of all sizes in a wide range of industries and geographic locations (64.9 percent of the fund's assets were invested in overseas

companies as of June 30, 2009).

Now that you've made the decision to go green with your investment portfolio, the question is how much you should invest in this sector. It is important to point out that critics note the similarity between the green investors of today and the dot.com investors of the late 1990s, when investing in anything Internet-related delivered fabulous returns for several years – until the Internet bubble burst in 2000-2002. Many of the arguments made today for investing in the green sector were also made for the dot.com sector 10 years ago. You should keep this in mind as you consider your allocation.

For those clients who request direct green exposure, we have generally limited such investments to 20 percent of their portfolios. Mutual funds or ETFs with broad diversification are used to limit risk and keep the portfolio balanced within our allocation models. I'd encourage you to review your investment strategy to determine if it should be a little "greener!" ❖

*Information and examples in this article are of a general nature. The information reflects the opinion of Rick Rodgers and Rodgers & Associates on the date written, and is subject to change at any time without notice. Due to various factors including changing market, tax and legal considerations, the content may no longer be reflective of current opinions or positions. The information provided should not be deemed to constitute financial, investment, tax or legal advice. The securities described herein are examples only and do not constitute a recommendation by Rick Rodgers or Rodgers & Associates. The examples were selected using research performed on stocks, ETFs and mutual funds participating in the green sector as of September 30, 2009. Rick Rodgers and/or clients of Rodgers & Associates may own the sample securities.*



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