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How to Make a Buck Green

By Jane Bryant Quinn

April 23, 2007 issue - So where's the money in climate change? Investors sense a tumultuous market in the making, if they can only hit it right. "Sometimes I feel like a fly on the wall, watching a new era unfold," says Rona Fried, editor and publisher of Progressive Investor, a six-year-old newsletter that follows the field. "We're almost past the final hurdle of 'Do we really have to change?' Yes, we do, and we're going to get there."

Wall Street's own change in climate is nothing less than astonishing. Save-the-planet investing has suddenly, well, heated up. Four major investment banks—Citigroup, Goldman Sachs, Lehman Brothers and UBS—have recently issued fat global-warming reports looking at stocks and industries likely to gain or lose. Investments in clean energy have more than doubled, to $70.9 billion worldwide, in just three years. In just six years, assets in U.S. "green" mutual funds have soared by 695 percent.

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Climate change is only part of the picture, says Michael Liebreich, CEO of New Energy Finance, an independent analyst of the clean-energy sector. There's depletion of global oil and gas reserves, rising fossil-fuel prices and the dangerous dependence on politically risky oil-producing countries. The energy world is headed for a dramatic transformation—from 2 percent drawn from renewable sources in 2000 to 15 percent in 2025, worldwide, says Liebreich. *That's* where the money lies, as well as in companies that adapt their production and transportation processes to the new carbon-limited world.

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If your green will be going green, you have plenty of choices. But first, two warnings: (1) When you invest in a very small segment of an industry, the price of your fund or stock will bounce like a Super Ball. You'll love the ups, but the downs will bring tears. Unless you're a trader, go for broader, well-diversified funds. (2) Clean-technology stocks and funds aren't in a bubble yet. But they're pricey and speculative, and they pretty much track the price of oil.

To play that high-risk game, 5 percent of your money is enough. Some ideas:

Green Mutual Funds: Most are young, all are small and—surprise!—their top holdings generally aren't involved in energy. They'll own some renewables, but lean more toward clean companies in fields such as health care and software.

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Socially Responsible Funds: These cover the "conscience" universe—typically throwing out sin stocks (liquor, gambling, tobacco), military suppliers, companies with poor community or labor relations, oil, mining companies and polluters, among others.

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Exchange-Traded Funds (ETFs): These are baskets of securities, put together so they can trade as a single stock. But bring the Dramamine—they'll give you motion sickness. A gambler's list might include (with ticker symbol): PowerShares WilderHill Clean Energy Portfolio (PBW), tracking 41 small, alternative energy companies, and PowerShares WilderHill Progressive Energy Portfolio (PUW), tracking 46 larger companies that are generally growing more green. An ETF tracking the WilderHill New Energy Global Innovation Index should be available next month; it tracks 84 global clean-energy companies.

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