Divestment from Fossil Fuels and Reinvestment in Clean Energy: What Can You Do? -- 6/2018

The most important thing we can do to reduce climate change is to move from fossil fuels to renewable energy. It's estimated that we need to invest a trillion dollars a year in renewable energy, for many years, to make that transition. We are now investing much less than that. There are two steps to this transition: divestment: (selling/getting out of investment in fossil fuel stocks) and reinvestment: (investing in renewable energy. energy efficiency, etc.).

Environmentalists have advocated for *divestment* and many pension funds, endowments, etc. have divested. (Actually, research shows that funds without fossil fuels do as well overall as those with fossil fuels. Fossil fuel companies will probably be even less profitable in the future, as the effects of climate change lead governments to tax and limit carbon emissions.)

But few investors have done the necessary *reinvestment* in renewable energy and energy efficiency. They apparently believe that reinvestment is relatively risky; it is a new area, and they don't want to take that risk.

Individuals should get involved in reinvesting, to make up for the relative lack of reinvesting on the part of pension funds and endowments. Of course, individuals' amounts are small, but would add up if many did it.

Â **The Choices for Reinvestment**

Regular stock-oriented mutual funds and ETFs (Exchange Traded Funds) vary in focus but basically they seek to generate income and/or capital gains. Sustainable funds are funds that meet ESG (environmental, social, governance) criteria. Green funds vary; some are diverse in industry, but simply omit fossil fuels. Some are diverse and include renewable energy companies, etc. Others have only clean energy and related stocks. A few focus on a particular industry, such as solar power. Of course, the basic investment precept applies: the more specialized any fund is, the more risky **and volatile** it is. (Check out funds on their environmental aspects; some funds claim to be green but are not.) Even riskier is buying stock in an individual solar or wind power company, etc. Â

What Can an Individual Do?

First, determine where your savings and investments are. Much of our savings is in pension funds whose contents we don't control. However, we can ask the funds to divest from fossil fuels and invest in green alternatives.

If your retirement savings are in an IRA or other retirement account that has a choice of mutual funds, see if it has any green funds within its options. (TIAA-CREF, as a result of member requests, introduced the Social Choice Low Carbon Equity Fund and other Social Choice funds.)

Also, many people have some investments outside their pension funds. Small amounts can be put in green funds.Â

If you have investments in individual company stocks, see if they are on the Carbon Underground 200 list, the list of the largest fossil fuel companies. If you have investments in mutual funds or ETFs, the site Fossil Free Funds (https://fossilfreefunds.org) has a search-box tool you can use quickly and easily. You simply enter a fund in its search box and learn the percent of the fund that is in fossil fuels **and the percent that is in the Carbon Clean 200** Â (https://www.asyousow.org/report/clean200-2018-q1**).** Fossil Free Funds also suggests alternative funds.

For those with extensive investments, moving out of the fossil fuel investments and into green investments should be done gradually over time, so that ups and downs in share prices average out.Â Start with the holdings with the highest percentage of fossil fuels. Also, you can invest in **green funds** without divesting from fossil fuels.

Follow general principles of good investing:

- In general, unless you are wealthy, mutual funds and ETFs are better than individual stocks. Mutual funds and ETFs contain many individual stocks so the ups and downs in the stocks should average out.
- Buy different kinds of green mutual funds, ETFs and/or green bonds, perhaps one stock fund, one bond fund, one international fund.
- Invest for the long term, as there will be ups and downs.
- Don't try to time the stock market. Add small amounts to your funds at regular intervals.
- Consider your level off risk tolerance.
- If making a relatively risky investment, never invest more than you can afford to lose

How Do You Choose Mutual Funds or Exchange Traded Funds?

Of course, if your investments are with an investment firm a **retirement plan** with a particular family of mutual funds, you're limited to the funds in that family.

Fossil Free Funds (https://fossilfreefunds.org) suggests alternatives to funds that are high in fossil fuels. Green America lists green funds (https://www.greenamerica.org/green-living/investing-green-energy). You can find sustainable funds from the Barron’s annual listing (October 9, 2017). Morningstar, an investment research service, rates funds on risk-return and sustainability. Search their website, Morningstar.com, by the name or ticker symbol of the fund. There is a subscription cost, but their 14-day free trial is enough for a lot of research.

What Is the Future of Sustainable Investing?

Sustainable investing should have good prospects for the long term. A possible bursting of a carbon “bubble” would cause fossil fuel stocks to lose value. Solar and wind power have both increased over the past few years. For businesses, energy savings make sense economically. So over the long term, divesting from fossil fuels and reinvesting in clean energy and energy efficiency should make good sense financially.

Disclaimer: Individual situations vary and the above should not be considered as financial advice. Consult a financial advisor or retirement plan manager before making changes in your investments.

ETFs (Exchange Traded Funds) are a group of stocks that are traded like a stock (priced like a stock and can be bought or sold at any time, not just the end of the day). They often reflect all the stocks in an index, but sometimes represent a broad spectrum of stocks in a segment of the stock market that may not have an index for that segment.