



As Ice Caps Melt, Will Market Caps Grow?

Global warming-related investment opportunities are heating up.
How can you take advantage of them?

It's happening in the news media, in governments and other institutions, and in the minds of individuals worldwide: Global warming and other environmental concerns are receiving more attention than ever before.

Look closer, however, and you'll see another, equally dramatic response to the issue of global climate change:

- China, despite being one of Earth's worst polluters, has become its biggest investor in renewable energy, to the tune of \$7 billion dollars in 2005.
- GE has launched its "Ecomagination" initiative, pledging to more than double its research investment in cleaner technologies, from \$700 million in 2004 to \$1.5 billion in 2010.
- British Foreign Secretary Margaret Beckett has said that 2005 set a record (\$38 billion) for worldwide investment in new, renewable energy capacity.

Clearly, fighting global warming and increasing the use of alternative fuels will provide unprecedented opportunities for capital investment and technical advance. One analyst has said it will be "the mother of all capital improvement projects."

Investing opportunities — and risks

So how should individual investors ride this wave? Northern Trust Product Manager Priya Khetarpal notes that investing in clean energy involves trade-offs.

"Most of the 'pure play' clean-energy firms are newer small caps that have yet to turn a profit," she says. "But because of their small size and great potential, they tend to have more upside potential than the alternative—that is, large, stable corporations who are aggressively going green."

Global warming presents new risks to investors

"You can't simply chase profit opportunities," Khetarpal says. "You also have to look at how heavily invested you are in the sectors most likely to be hurt by climate change."

Those sectors include autos, petroleum, mining, insurance and transportation. The leaders in these and all industries are already preparing their operations to meet the lower-emissions requirements that are sure to come.

Seeking green companies

Identifying these companies has long been a challenge, but new tools are emerging. Ceres, an alliance of investors and environmental organizations, has worked with corporations since 1990 to address global warming and other sustainability issues.

In March 2006 Ceres issued its "Corporate Governance and Climate

Change," a first-of-its-kind report ranking 100 large corporations on how they are preparing to compete in the coming environment of stricter carbon-emission regulations. The report, which is available at www.ceres.org/pub, notes that "most American companies lag behind their international peers—a trend that is already resulting in competitive advantages for [certain] overseas companies."

Efforts to fight global warming will be "the mother of all capital improvement projects," one analyst says.

A global challenge

Indeed, countries such as Sweden and Finland have publicly committed to eliminating their dependence on oil within 25 years. Others are moving in the same direction.

Still, many oil-exporting countries have little else to rely on economically, so a shift away from oil could increase their political instability. Also unclear is how well the world economy would function without trade in oil and the flow of petrodollars.

"You can't point to one country's policies and say, 'This is the direction the world is moving in,'" Khetarpal says. "In fact, for investors, the biggest challenge with global warming may well be its global aspects." ■