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Investing In a Greenhouse Gas-Regulated World

Geoff Considine (Quantext) submits: We are seeing a great deal of attention focused on climate change, not least in the financial world. There is increasing evidence that greenhouse gases will see substantial regulation in the future. Climate change is being taken seriously by a range of major corporations, as well as by institutional investors.

The recent Supreme Court decision that greenhouse gases are, in fact, pollutants is an impetus for regulation. This issue has acquired enough momentum that all investors need to consider the implications of climate change and related policy on their portfolios. In this article, I will review some of the key issues and demonstrate that it is possible to combine broad index funds (ETFs in my example) with a selection of individual stocks to develop a portfolio that is prepared for a world in which greenhouse gas emissions are constrained by a combination of regulation and market forces.

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It is reasonable to layer in some allocation to solar energy and other clean energy technologies. These companies will benefit from increased regulation of GHGs. A reasonable candidate would be WilderHill Clean Energy fund (PBW), but this fund (and related investments) can only be added to an equity portfolio in modest amounts because of their high volatility and high Beta. The high levels of volatility (i.e. risk) in pure plays on solar technology and other clean energy technology remain a limitation to substantial allocations to these sectors. There is currently a somewhat frenzied environment around 'clean energy' firms that gives me pause.

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