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## How Going Green Can Make You Rich

**It's not just about being a do-gooder. Cary Krosinsky reports that companies--and the investors who follow them--make out like bandits when they're environmentally responsible.**

by [Cary Krosinsky \(/contributors/cary-krosinsky.html\)](/contributors/cary-krosinsky.html) | October 16, 2011 9:20 PM EDT

Many would agree that we are entering a world of peak oil and rising energy prices. There are pending fresh water and food shortages and price increases in many parts of the world, coupled with theoretically unsustainable—yet inevitable—increases in population. Other effects of climate change threaten, from warming seas to shortages of arable land and biodiversity loss. Yet the majority of investors do not take such things into consideration.

Increasingly, evidence suggests they should. Companies that actively manage environmental risks—and take advantage of associated opportunities—increasingly seem to outperform those who don't in the stock market. That could be a very good thing, both for shareholders and the planet.

Take [NEWSWEEK's Green Rankings \(/topics/green-rankings.html\)](/topics/green-rankings.html), for example: companies that ranked in the top 100 of the 2009 ranking, weighted equally, outperformed the S&P 500 by 4.8 percent over the last two years. These companies are collectively up 15.2 percent, compared to 10.4 percent for the S&P 500. The case gets even stronger when you look for undervalued companies using an analysis of financial metrics, as Value Line performed for us recently. Looking at 30 of the financially strongest of NEWSWEEK's top 100 finds a two-year return of 24.1 percent, outperforming the S&P by 14 percent.

An example of such a company is IBM, whose stock is up more than 100 percent over the last 5 years, while the S&P 500 has been flat. IBM is a poster child for a company evolving with the times—first from hardware to software, and now through sustainability solutions across energy and water efficiency, smarter cities, etc. as categories of opportunity to drive future revenue. IBM not only looks for such environmentally focused revenue opportunities, they are also now [demanding environmental reductions from their suppliers \(http://www.ibm.com/ibm/environment/supply/\)](http://www.ibm.com/ibm/environment/supply/). Leaders in the rankings this year in other sectors have not only survived the financial woes their direct industry peers have otherwise suffered, they also have emerged healthier. Ford, for example has come out with a suite of efficient vehicles that are much more attractive to consumers facing higher gasoline prices; Ford's stock price is up over 50 percent in the last two years.



Stan Honda / Getty Images

Similarly, a [separate analysis \(http://seekingalpha.com/article/231918-buying-green-stocks-pays-but-finding-green-in-brown-stocks-pays-more\)](http://seekingalpha.com/article/231918-buying-green-stocks-pays-but-finding-green-in-brown-stocks-pays-more) of the NEWSWEEK list performed by Tom Konrad of Seeking Alpha concluded that greener companies financially outperform their brown counterparts, especially in industries with particularly dirty footprints, like oil and gas, utilities, and basic materials.

Other studies have found similar indications of outperformance. A recently published paper (<http://erb.umich.edu/blog/2011/09/23/newsweeks-green-companies-rankings>) co-authored by highly respected academic Thomas P. Lyon (<http://www.bus.umich.edu/FacultyBios/FacultyBio.asp?id=000671176>) found “strong evidence that NEWSWEEK’s 2009 Green Rankings (<http://greenrankings2009.newsweek.com/>) had a significant impact on rated firms’ capital market performance.” Perhaps of most interest, this Lyon/Shimshack paper found the most outperformance from the combination of factors that these rankings offer, as opposed to any one component alone.

The first wave of socially responsible investing at best matched the market, and often underperformed. It gave you values, but no value.

In addition to signaling past performance, high rankings now indicate which companies are best positioned for the changing world through new offerings as well as efficiencies and cost savings that they find through best-practice supply chain management. This should open the door to a new means of investing according to corporate environmental performance—what you might call sustainable investing—in addition to more traditional financial criteria.

Sustainable investing improves on traditional socially responsible investment (SRI), which often focuses on a narrow set of issues. An example of this earlier approach would be investing in a mainstream index such as the S&P 500, and subtracting out alcohol, tobacco & weapons manufacturing. Yet these types of approaches at best match market performance, often underperform, and are frequently designed to mimic the market. In other words, older forms of SRI gave you values, but no value.

In many ways, the first wave of socially responsible investing (SRI) has become a stumbling block that sustainable investing must overcome on the path to becoming a mainstream investment strategy. Sustainable investing sits neatly between the mainstream approaches on the right, providing value opportunities that are

sensible for any investor to pursue, and investors on the left, who want to participate in an evolved, practical, positive perspective, that if taken to scale, can lead to the sustainable world they aspire to.

Sustainable investing will require care and ongoing research, much as any mainstream investment strategy would. It will require vigilance, in particular, against bubble formation. But with careful management and consideration, we are seeing the emergence of what arguably will be the investment megatrend of our times.

**Tags:**

- [Green Rankings, \(/topics/green-rankings.html\)](/topics/green-rankings.html)
- [Business \(/business.html\)](/business.html)

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