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Picking Stocks in a Time of Climate Change

Matt Patsky

By Laurent Belsie
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After years of warnings from environmental and socially responsible investing groups, it seems that corporate America is catching on to the risks of climate change. Investment banks, insurance companies, and big investors are taking a close look at the greenhouse gases that companies are emitting. So how can you avoid a portfolio meltdown if the planet heats up? The Monitor's Laurent Belsie sat down with Matt Patsky, portfolio manager for the Winslow Green Growth Fund in Boston, to get some answers. Here are excerpts of their conversation:

Question: Are we at the tipping point in terms of corporate awareness of global warming?

Mr. Patsky: Yes. It certainly appears that there has been a growing level of awareness. It started with smaller companies, but we are now seeing the large multinationals actively engaging in a strategy to look at their carbon footprint and look at ways of reducing that carbon footprint.

Q: Which companies are most at risk?

Patsky: If you look at any company that's in chemicals or in the extraction of oil or natural gas, those companies are the most at risk.

Q: Who are the winners?

Patsky: The winners are going to be those that are providing solutions. One of our holdings is Fuel Tech.... Coal is still providing 50 percent of the electric needs of the United States. And Fuel Tech has a solution that allows for the more efficient burning of coal, which is beginning to be rolled out into a lot of coal-fired plants in the US.... Obviously, all the renewable-energy companies are going to win in different ways.

Q: What should investors do?

Patsky: We need to change the mind-set of investors in the US. Just looking at a financial report isn't enough in determining the value of a company. You need to understand - from sourcing through disposal of a product - the life cycle of a company's products and its impact on the environment. Increasingly, those external factors that have long been ignored are going to become part of the cost structure of that company. And that's going to end up being reflected in the valuation of the company.

Q: So investor strategy No. 1 is to avoid those companies that are most at risk. How do you find those firms?

Patsky: There are a lot of databases out there, like [those from] KLD and Innovest, that are providing that type of information. If you were to go to our website - www.winslow green.com - we have a whole section on sources of information for investors about environmental impact, and studies also showing the impact that it has on performance of stocks.

Q: Investor strategy No. 2 might be called picking climate-change winners. How do you do that?

Patsky: The real opportunity here is solving problems. And something as simple as changing a light bulb can save 90 percent of electric use. There has to be a lot of opportunity for making money there. It's still at an early stage in a lot of companies. So trying to find the right names can be complicated. I'd say the smartest approach, in a very biased view, is to look for a mutual fund that looks for these types of solutions, because to try to go and buy individual companies is difficult.

Q: A shameless promo for your mutual fund?

Patsky: My recommendation would be to go and look at our holdings, and look at the holdings of competitors like New Alternatives. There aren't that many green-solution funds in the US.... In Europe, there are a lot of them, though. So if you were really looking on a global basis, you could find a lot of green mutual funds to turn to.

Q: What criteria do you use to look for climate-change winners?

Patsky: One of the single, most critical factors to the success of a company is the strength of its management. And that can't be quantified. You're interviewing them. And you're trying to get a sense of the quality of that management team.... We're small-cap growth players, so we're really looking at getting in early at a company that can be 10, 20 times the size they are now.

Q: Isn't that risky? For every company that grows like that there must be several that fail.

Patsky: We certainly advise any investor in our fund or in that space to be long-term oriented, because there's going to be volatility. For every two companies that end up being real successes and going up threefold, fourfold, there's going to be two or three that go bankrupt. We're hopefully out of them before that happens, but it is going to happen. An example of one that went terribly wrong was AstroPower, the No. 1 maker of photovoltaic cells. The biggest player in solar in the US went bankrupt just a few years ago with its assets acquired by GE. We were luckily not investors at the time. But it's a sign. Just because you have the industry growing rapidly doesn't mean everything's going to go up and everything's going to do well.

Q: What specific companies do you like?

Patsy: We're currently holding REC, which is Renewable Energy Corp., out of Norway. They're producing silicon all the way to producing the solar cells. Because there's been a tight supply of silicon and the fact that they've had their own supply has been critical to their rapid growth. SunPower is a manufacturer of the solar cells and modules here in the US. That's another name that I think is a quality company and a solid player in solar. In wind, Gamesa has been a solid player in the business and wind turbines out of Spain. That's been a name that we've held.

Q: Should investors look at innovative conventional energy companies, too?

Patsky: Coal will clean up its act. You'll see it become cleaner and cleaner because technologies are progressing. So it will remain a part of the energy equation. While the waste-disposal issue remains a problem, nuclear in terms of its carbon footprint looks attractive. So indeed, we may see commissioning of new nuclear power plants in the United States after many years of not seeing any.

Q: If corporate America is becoming more green-conscious, will the mutual-fund industry follow?

Patsky: Yes. We are going to see many of the conventional mutual-fund houses starting to look at some of these external factors. It's becoming so obvious, they can't ignore it.