This Need-to-Know Strategy Allows Investors to Get Rich While Saving the World!

Description

The ESG (environmental, social, and governance) criteria have become increasingly popular among morally conscious investors, including millennials, as a part of the investment decision-making process.

You've probably noticed that a handful of companies on Wall and Bay Street have been disclosing their sustainability initiatives to the public, whether it's through reduced power consumption or a long-term plan to reduce the environmental footprint of a company's operations.

While such efforts may not drive the profitability of operations over the short term, (they may even dampen profitability), they stand to attract prospective investors who've decided that socially or environmentally responsible investing is important to them.

It's not just about the environmental footprint of companies either.

Social factors including the fair treatment of employees, customers, and all stakeholders are of growing concern to the general public, and they very well should be.

We're moving into an era where all publicly traded entities will be judged, not just based on the profitability of their underlying operations, but due to the good they'll add to society and the planet as a whole.

Moreover, the importance of catering to all stakeholders, and not just shareholders, is of growing importance of a company's board of directors, which typically puts the interests of shareholders above all else. This is material for another article, but I'm sure you get the point by now.

ESG is a growing trend, and it's time that investors incorporate it into their investment decision-making process. I believe the magnitude of social and environmental friendliness exhibited by firms will become more proportional to the intrinsic value of a company as time progresses.

Sure, a company going out of its way to invest in its community (or environment) will negatively impact the balance sheet over the short term and will make the company look less desirable based on traditional valuation metrics. When you consider the long-term intangible value that ESG initiatives add, however, there's no question that investors should be more willing to pay up on companies that are doing their part to save the world.

Even if you couldn't care less about social and environmental responsibility, governance efforts that consider the ESG criteria realistically stand to bolster profitability over the long term through a strengthening of intangible traits.

Consider **Suncor Energy** (TSX:SU)(NYSE:SU) or other companies, like **ExxonMobil** — energy firms that have spent money on televised commercials to shed light on their "environmentally friendly" initiatives. Such ads appear aimed at socially responsible investors who may be on the fence about whether they should invest their money in an industry that's anything but friendly for the environment.

Like it or not though, Suncor and other fossil fuel firms will remain top candidates that will be screened out of negative (or exclusionary) screeners — a stock screener that's most commonly used among ESG investors. And as the ESG trend continues to pick up traction with retail investors, I think oil firms will continue to fall out of favour with the public in spite of their environmentally responsible initiatives to clean up after themselves.

Moreover, such environmentally-unfriendly firms may stand to be hit with hefty carbon taxes, enhanced regulations, clean-up costs, and other contingent issues down the road. So, there's a fundamental risk attached to such oil firms as well, even if you're not an adopter of the ESG criteria.

Foolish takeaway

ESG is a trend that investors need to know about.

Renewable energy companies like **Algonquin Power & Utilities** will stand to be rewarded, not just with increased investment from the public, but with potential incentives from regulatory authorities that aim to accelerate the world's transition to sustainable energy.

You can collect a high +5% dividend yield with Algonquin while helping save the world, or you can continue investing in oil sands operators that may grow less attractive to ESG investors in spite of any fundamental profitability improvements.

There are plenty of ways to get rich in the world of investing, but with ESG investing, you can get and *feel* rich by doing your part to save the world.

Stay hungry. Stay Foolish.

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