



Should Climate Change Be a Part of Your Investing Strategy?

Description

Climate change is set to impact nearly every industry worldwide. Already, it's having an effect on energy usage, insurance claims, and government regulations.

If you're not considering the impact of climate change on your portfolio, you should do so immediately.

The Canadian government recently established an expert panel on sustainable finance that helped assess the risks and opportunities of climate change for investors.

These experts outlined numerous practical and concrete recommendations that should help guide your long-term investing strategy. Here's what to make of their recent report.

Carbon will fall

The government's report outlined the importance of "mapping Canada's climate goals into clear industry competitiveness visions and capital plans would spell out the size and horizon of the investment opportunity."

The report listed this as one of its biggest priorities. If you're invested in oil sands stocks like **Canadian Natural Resources Ltd.** ([TSX:CNQ](#))([NYSE:CNQ](#)), you should be very concerned.

As I've [argued](#) in the past, it's not clear how oil sands companies will fit into the future of energy. North America will continue pumping oil for many decades, and fossil fuels will undoubtedly remain a fixture in daily life.

Given the growing competitiveness of renewables, however, it won't be surprising to see demand growth outpaced by supply growth. That could spell trouble for high-cost producers with little margin for error.

Since their introduction, oil sands have remained one of the costliest ways to produce oil, especially considering the higher need for refinement, which adds additional layers of expense.

Today, many oil sands companies break even at prices of US\$40 per barrel or more. In a world where international suppliers like **Exxon Mobil Corporation** are exploring projects with break-evens as low as US\$15 per barrel, it's tough to see oil sands stocks outperforming in the years ahead.

Renewables will rise

The decline in demand growth for oil in North America largely stems from efficiency reforms that target fuel economy and housing improvements. However, renewables are also displacing a lot of the demand for hydrocarbons.

If you want to protect your portfolio from climate change, renewable energy stocks are one of the best ways to do so.

Consider **Brookfield Renewable Partners LP** ([TSX:BEP.UN](#))([NYSE:BEP](#)), which owns and operates renewable power assets.

Since 2006, this stock has increased in value by 85%, all while delivering an annual dividend between 5% and 6%. Over the same time period, the **S&P/TSX Composite Index** increased in value by just 13%.

Countless companies are finding ways to generate sizable and consistent returns by investing in renewable energy solutions. It turns out clean fuel sources can be good for both the environment *and* your portfolio.

Insurance may stumble

Insurance stocks are well-regarded as low volatility investments. In times of turmoil, many insurance stocks weather the storm with little to no impacts. Just be careful about whether your insurance stocks are exposed to large natural disasters that can be exacerbated by climate change.

If the frequency and severity of natural disasters is on the rise, many insurance companies may find themselves vulnerable to financial exposure.

"We don't discuss the question anymore of, 'Is there climate change,'" the CEO of **Munich Re** recently told *The Wall Street Journal*. "For us, it's a question now for our own underwriting." Fortunately, there's a quick fix—only invest in insurance stocks with little exposure to climate change.

Consider **Manulife Financial Corporation** ([TSX:MFC](#))([NYSE:MFC](#)). The company primarily focuses on health insurance, life insurance, and travel insurance. By avoiding risky areas like property and casualty insurance, Manulife should handle future climate change disasters with little impact.

CATEGORY

1. Dividend Stocks

2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:BEP (Brookfield Renewable Partners L.P.)
2. NYSE:CNQ (Canadian Natural Resources)
3. NYSE:MFC (Manulife Financial Corporation)
4. TSX:BEP.UN (Brookfield Renewable Partners L.P.)
5. TSX:CNQ (Canadian Natural Resources Limited)
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