

UPDATING FOSSILIZED ASSET-ALLOCATION CLASSES: “HERE COMES THE SUSTAINABILITY SECTOR!”

By Hazel Henderson

Most equity markets, security analysts and asset managers – all amplified by media – have missed what I have termed the SUSTAINABILITY SECTOR for the past 25 years. This is due to their obsolete asset-allocation models and because today markets everywhere are driven by media. All this serves to amplify these errors in security analysis and obsolete categorization in asset allocation, CAPMs, VAR and other models. For example, traditional security analysis and media categorize equity markets into familiar sectors: energy, retail, defense, healthcare, transportation, industrials, technology, finance, etc.

Expanding our view can highlight new asset classes and emerging opportunities as the world transitions from the fossil-fueled Industrial Age to today’s information-rich Solar Age – as well as potential profits in start-ups and new technologies. Our current financial meltdown still sees trillions sitting on the sidelines, looking for the next big thing. I believe the next bull market will be in the green companies of this growing sustainability sector. Now that saving has become a fool’s game with negative real interest rates, some of the least-correlated assets are in this new sector.

Today’s obsolete framing obscures the steady evolution of all economies in the same way the US Dept. of Commerce framing of “goods” and “services” does in national accounts: GDP has to be constantly updated to keep up with the shift from “goods” to “services” (e.g., software was re-categorized in 1993 from a “good” to a “service”). Similarly, governments under-invest in education because it is categorized as “consumption” instead of “investment.” Further, GDP does not even have an asset account to carry long-term investments such as in new infrastructure, which Congress may enact soon. These public investments should then be amortized over the long life of such assets such as the new “smart” electrical grid. I and many economists have been trying to correct this for decades. (See www.beyond-gdp.eu.) Markets then embrace such official statistics and their errors and media amplify them, leading to short-termism. (See www.Calvert-Henderson.com, click on Current Issues, or visit www.shadowstats.com.)

The proliferation of CNBC, Bloomberg, Reuters and other business/finance channels on cable and the internet profoundly changed the nature of markets and contributed to herd behavior. Even Alan Greenspan no longer believes in efficient markets. Contagion and other effects are now studied by psychologists like Princeton’s Daniel Kahnemann, mathematician “quant” Nassim Taleb in *The Black Swan* (2008), Richard Bookstaber in *A Demon of Our Own Design* (2008) and Robert Shiller in his classic *Irrational Exuberance* (2000).

To achieve sustainability in finance, the evolution toward “triple bottom line” and ESG accounting are now going mainstream in economies world-wide, according to a survey by *The Economist*. These changes must now be reflected in market categories. Today’s conventional equity market “sectors” are out of date and cannot fully reflect today’s growing global “green economy” and its array of more sustainable goods and services. For example, solar and wind power companies are lost in an Energy sector still dominated by fossil fuels and nukes; energy-efficiency companies are conflated with the Technology sector; biofuels companies are under the Agricultural sector; green building and design are subsumed under the Construction sector; whole foods are lost under Retail,

etc. So, companies producing goods and services more sustainably have remained largely invisible, un-noticed and their potential has been overlooked and under-valued. They are also small-cap, often traded over-the-counter and insignificant for larger-scale asset managers, as well as targeted by short-sellers.

Today, new stock indexes in renewable energy, cleantech and greentech have emerged, along with new market newsletters including Green Chip Stocks, New Energy News, Energy and Capital, Greener Computing and others available at www.ethicalmarkets.com. What is now needed is to aggregate all these green companies into a new asset class: the SUSTAINABILITY SECTOR. This new sector should be routinely displayed in all financial media and included in asset-allocation models. These companies offer a new form of diversification since most are not correlated with other assets; in fact, many of the new technologies are disruptive of old sectors.

This new SUSTAINABILITY SECTOR can aggregate all the key companies in: solar, wind, geothermal, biofuels, tidal, fuel cells, conservation/energy-efficiency, process controls, storage technologies (e.g., batteries, flywheels, compressed air), hydrogen, water-conservation, organic agriculture, green building components, green design firms (e.g. AutoDesk), as well as smart electrical grids, even preventive healthcare. This will help investors understand the transition to the Solar Age economies and make these young companies more visible and investable. This can help change obsolete paradigms and investment strategies, overhaul traditional asset-allocation models and grow the green economy worldwide!

Disclosure: Hazel Henderson has venture investments in pre-IPO companies across the renewable energy sector, plus Clipper Windpower, Suntech, Google, Ormat, Cree and other OTC stocks.

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