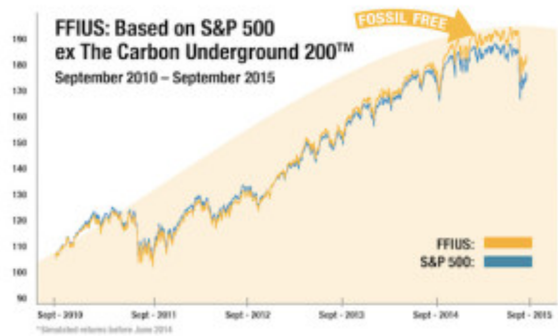
# Dropping fossil fuels INCREASES investment returns

Written by Jim Cummings on November 3, 2015. Posted in General, Zone 8




The fossil fuel divestment movement has faced some fairly stiff headwinds from institutional money managers who insist that universities, foundations, or individual investors will suffer financially if they choose to forgo investment in energy companies that have, historically, been among the best-performing stocks to hold.  But a recent analysis by Fossil Free Indexes paints a very different picture: if you take the S&P 500, and remove companies that are among the Carbon Underground 200 (companies that have the largest as-yet-untapped reserves of coal, oil, and gas), replacing some of them to maintain a balanced portfolio, your investment returns can be higher than they'd have been if you stayed on the business-as-usual path.  Applying this criteria to the past ten years, you'd have earned about an extra 1% per year.  This includes several years early on when the fossil fuel free approach slightly underperformed; it appears that in recent years, you'd have done much better than that (e.g., more than 2% a year over the past 3 years):

| | Cumulative Growth | | | | | | |
|---|---|---|---|---|---|---|---|
| | 3 Month | 6 Month | YTD | 1 Year | 3 Year | 5 Year | 10 Year |
| FFIUS | 0.8% | 6.3% | 0.8% | 11.9% | 53.7% | 83.3% | 85.3% |
| S&P500 | 0.4% | 4.8% | 0.4% | 10.4% | 46.8% | 76.8% | 75.2% |

As explained by DivestInvest.org, using this approach will maintain competitive returns while protecting you from the near- and mid-term risks of holding stock in companies that are likely to have to write down unrecoverable reserves in the coming years; plus, you'll be able to replace these risky investments with "companies who look at environmental and social risks as opportunities to improve business practices." A wealth of recent evidence points to socially and environmentally responsible businesses being better performers.

This is but one approach to creating a fossil fuel free portfolio; bear in mind that all approaches may not have advantages quite this dramatic, and if coal and oil prices bounce back, the calculations may change.  Nevertheless, the time appears to be upon us when holding fossil fuel energy companies in your portfolio no longer confers the irrefutable advantage that it used to.  This should make it ever easier for investors of all stripes to cut their ties with these climate-threatening companies and be a part of the change that we all need to see, making resilient investors' Zone 8 choices (financial assets, global economy) an even more powerful step in the right direction.