THE FACTS ABOUT FOSSIL FUEL DIVESTMENT & LOW OIL PRICES

Divestment activists pushing endowments and other funds to give up their holdings in fossil fuel companies use the current oil price as justification that oil and gas stocks are a bad investment. But ask anyone with a basic understanding of the financial markets and that argument swiftly falls apart.

FACT *Oil is a cyclical commodity, and always has been.*

Oil, like other commodities, is cyclical and experiences price swings for any number of market factors, from supply and demand dynamics to geopolitical events across the globe. As Prof. Fischel highlighted in his report on the costs of divestment, "*the impact of divestiture can vary substantially depending on whether an investor happens to make trades during a downswing or upswing in the market or energy sector…the best guide to the potential effects of diversification – and the standard approach of financial scholars and analysts to such questions –* ***is to examine long-term averages***." As a result, his study looked at a 50 year timespan – including two major declines in oil prices in 1986 and 2008 – to calculate the true costs of divestment on a portfolio. Even with these declines incorporated, his report still found divestment has a substantial cost for portfolios.

Another report by Sonecon's Robert Shapiro, a former Advisor to Pres. Clinton, found that for the country's largest state pensions, investments in oil and gas "*significantly*" outperformed other assets between 2005-2013. During a volatile period that included expansion, a deep recession and economic recovery, investments in oil and gas still had returns "*twice as great as their share of the funds' assets*."

FACT *Energy provides additional diversification benefits for portfolios.*

Beyond individual commodity prices, energy plays an important role in ensuring portfolio diversification. Prof. Fischel emphasized this as a vital component in maximizing financial returns, stating "*of the 10 major industry sectors in the U.S. equity markets, energy has the lowest correlation with all others—which means it has the largest potential diversification benefit. The sector with the second-lowest correlation with others is utilities, which includes many fossil-fuel divestment targets such as Southern Company and Duke Energy*."

To translate, since the energy sector is largely "*un-*"correlated with the rest of the economy, when the economy falters, energy stocks for the most part do better, helping investors hedge against volatility in the market. Conversely less diversification is likely to put future returns in jeopardy.

FACT *Financial advisors often advise clients that are divesting to invest in "parallel funds" to maintain these diversification benefits as prices rebound.*

Advisor Partners, recommend investing in "*companies that may be statistically correlated but are not directly involved with energy activities. For example, industry groups such as construction and engineering, aerospace and defense, and machinery have high historic correlations with oil companies. Another option for investors with a global perspective is investing in the currencies or non-energy equities of countries that are major energy producers, such as Canada, Norway and Russia.* ***The broader economy in these countries tends to do well when oil prices rise, so investing in them could be a way to benefit from rising oil prices without providing direct funding to fossil fuel companies***."

In other words, you get to divest, while still getting the benefits of energy use, development, and inevitable upswings in price. Sounds like having your cake, and divesting it too.

In fact, just removing investments in fossil fuels into alternative energy funds may be a risky move for investors divesting from fossil fuels because of prices. As Boris Valentinov, an investment analyst at FactSet, stated in the Wall Street Journal "*since by and large, producing clean energy is more expensive than oil, the lower the price of oil, the less economically viable clean energy becomes as an alternative.* ***The fortunes of clean-energy companies are closely tied to what happens with oil***."

FACT ***Even advocates recognize that divesting from fossil fuels because of today's prices is a risky strategy.***

Even 350.org activist Naomi Klein admits that today's price environment won't stick around forever, stating earlier this year that, "*Fossil fuel stocks aren't performing very well right now. So opponents have just lost their best argument. They won't lose it for long. So that's another reason to pound away at it.*"

Earlier this year, Dan Kern of Advisor Partners also argued during a webinar hosted by divestment advocates of 350.org and Green Century Funds that simply moving from fossil fuel stocks to renewable energy is a risky strategy. As he stated, "*(Fossil) Energy stocks were down (in 2014), but in some cases not as sharply as alternative energy holdings. Exxon and Chevron, two bellwethers for the divestment movement, declined by 6 percent in 2014. In comparing them to clean energy and clean technology that were logical reinvestment candidates, several of those declined by more than Exxon and Chevron, falling as much as mid-double digits for the year.*"

FACT ***Many investors feel the current low oil price environment is actually a reason to buy, not sell.***

A savvy investor will frequently take advantage of low prices to maximize gains over a longer timeframe. According to U.S. News & World Report, "*Even though OPEC didn't do any favors for the price of crude oil in the near term, investment opportunity may still be lurking in the battered energy sector. Investors need to be choosy, but bullish analysts do see buying opportunities.*"

And while each company and investment has to be weighed on its own, Fadel Gheit, an oil analyst at Oppenheimer & Co., stated in CNN Money that, "*longer term, all of these stocks are buying opportunities. There's significantly overwhelming odds that oil stocks will be a lot higher than they are today 3-5 years from now.*"

FACT ***Regardless of today's price, oil and natural gas will continue to play a key part of the global energy mix for decades to come.***

Oil and natural gas are set to continue to play a key role in global energy consumption for years to come, even as sources of renewable energy grow. According to the U.S. Energy Information Administration (EIA), "*global consumption of petroleum and other liquid fuels grew by 1.4 million b/d in 2015, averaging 93.8 million b/d. EIA expects global consumption of petroleum and other liquid fuels to continue to grow by 1.2 million b/d in 2016 and by 1.5 million b/d in 2017.*" In the long term, EIA predicts fossil fuels will still supply almost 80 percent of the world's energy by 2040.

In addition to this growing demand, natural gas has also been called an excellent complement to growing alternative fuels, including by Secretary of the Department of Energy Ernest Moniz who stated natural gas "*can play an important role over the next couple of decades (together with demand management) in economically advancing a clean energy system.*" Rhone Resch, CEO of the Solar Energy Industries Association, has also stated that "*natural gas and renewables complement each other very nicely.*"