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How green are your investments?

Eco-friendly companies are growing in popularity with Canadian investors and starting to produce some solid financial returns

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While most investors were turning a sickly green while watching their coveted stocks lose almost half their value these past few months, another group was making traditional investors green with envy because of their market insight.

They were the ones who poured assets into environmentally- friendly stocks.

"Green investments are a good financial opportunity," says Michael Jantzi, president of Jantzi Research Inc. "There's a pent-up demand for Canadian investors."

Earlier this year, the Toronto Dominion Bank introduced its Global Sustainability Fund, which tracks companies who are making efforts to be socially and environmentally responsible.

"These are small companies in `hot spots.' The average investor has to study them carefully," says Bob Gorman, TD Waterhouse's chief portfolio strategist.

Gorman explains that these emerging "concept stock" companies generate a lot of hype but not a lot of earnings at the moment.

He recommends looking at exchange-traded funds. An ETF portfolio tracks an index, like the TSX 300 or something more specialized.

Companies that offer ETFs charge a management fee that's just a fraction of the cost of mutual funds.

"This way," Gorman explains, "you get away from any risk-associated securities but still get to play. This is for the investor who likes the idea of putting money into an up and coming company, but doesn't have time to conduct the research."

Gorman sees long-term potential in the water industry – distribution, safety, supply and desalination.

He suggests Toronto-based Claymore ETFs, which track 50 H20-related companies around the world.

French company Veolia is widely regarded as the global leader. It made 10.9 billion euros ($17.6 million Canadian) in earnings this year, and just signed a contract to develop a water treatment plant in Abu Dhabi.

Gorman also recommends an upstart company called Biotech Environment Technologies. It treats contaminated water used in mining by separating heavy metals in the water and then selling the recovered metals.

Toro Canada Inc., works with a similar agenda. It provides oil producers the technology to separate oil from water. But this is a much smaller company, so Gorman advises careful monitoring before making a decision.

Bob Mann, head of clean-tech indices at Jantzi Research Inc., also has a word of caution about investing too much in the water industry.

"Water is so contentious; many companies are fighting for rights to own it. Bottling water, complicated distribution, it's a messy space to be in."

Unlike water, solar power seems to have a less complicated reputation.

There are several ETFs in solar energy if you're interested in taking that route: Global Solar Energy (a Claymore ETF) is one, and the Market Vectors Solar ETF is another.

Gorman says he's heard demand for photovoltaic panel installations will grow 45 per cent this year.

"Solar has tremendous potential. Typically there's a high cost to start up but as a long-term investment it's great. Also, it's important to note that polysilicon, a substance used in solar-cell manufacturing, has been in shortage. Eventually there will be a surplus."

Waterloo-based Arise Technologies builds solar plants, but has decided to build them in Germany because of the demand there. Mann says this shows the writing is on the wall.

"Our role in this green industry would be much more vibrant if we had more federal government support," he says.

Another green industry on the way up is wind power, which is finding more acceptance and interest because the costs have gone down sharply in recent years.

On a global scale, Denmark's Vistas Corp., leads the way. A wind turbine producer, it has 30,000 units already installed and its market share is at 23 per cent. Gorman looked into Vistas' second quarter report and saw that in June, the backlog of wind turbine orders was up 60 per cent since the same month last year.

If you want to invest closer to home when creating your green portfolio, Gorman suggests looking at income trusts like Great Lakes Hydro and Algonquin Power Income Funds.

"But be careful," he warns. "Some may have conversion issues when they go corporate."

He is also skeptical of the biofuel industry because of its link to corn-based ethanol.

"It takes a lot of energy to grow corn and convert it," explains Mann.

"From a greenhouse perspective it's not beneficial. It's at a real social cost. It drives the price of soy up and industrial farming increases."

However, alternative biotechnologies are emerging.

Mann has researched companies that use waste, corn husks, algae and switch grass. A company in Brazil has even devised a way to use sugar cane.

"Much better, but they will still have to make it commercially viable," Mann says. "This kind of `feed stock' needs to be environmentally responsible."

Jantzi's business looks for how socially and financially responsible companies are; he calls them "groovy companies." His research teams also assess the strengths of the management team, supply chains, and how they manage risk.

"Small companies, even though they're at a riskier security, have got great management teams," says MacMurray Whale of Cormark Securities. "We look at how ready they are to execute and if they have something strong to back it up."