

# Is Investing in the Global Renewable Energy Sector in 2019 a Good Idea?

The world is going green, everyone says. For businesses, this often means using more environment-friendly ways of doing business. From the perspective of an investor, going green may mean impact investing, that is making investments in schemes that aim to make a positive impact on the environment.

Investing in renewable or alternative energy has become a frequent topic of discussion in investment circles. A few statistics below show why the global renewable energy sector is becoming increasingly attractive with time:

- **Rising global energy demands:** The rapid growth of emerging economies like India and China is driving worldwide energy usage higher and higher. According to The Guardian, global energy demand will increase by approximately 40% over the next twenty years.
- **The decline in coal use:** The International Energy Outlook 2017 by the US Energy Information Administration indicates that worldwide use of coal is predicted to fall to 22% in 2040 from 27% in 2015.
- **Flat oil demand:** Demand for oil begins to flatten from 2020 and will plunge from 2028, as DNV GL's Energy Transition Outlook predicts.
- **Increasing use of renewables:** Renewable energy now makes close to 20% of global energy consumption. Alternative energy sources are predicted to be the fastest growing source of energy over the next 20 years. By 2050, solar photovoltaic, hydroelectric, and wind power will make up 85% of global electricity. (Renewables 2018 Global Status Report GSR, Ren21)
- **Falling cost of solar, wind and other alternative energy**

**sources:** Improved infrastructure and use of higher voltage cables have significantly reduced the cost of generating electricity from these renewable sources.

## Why the global shift to alternative energy?

The world battles with global warming. The Paris Agreement on climate change signed by hundreds of countries in 2016 saw the world agree to limit the increase in global average temperature to 1.5 C and no more than 2 percent above pre-industrial levels. This will help greatly to reduce the effects and risks of climate change.

## Investing in Renewable Energy

Whenever and wherever discussions on renewable energy are held, investors ask some questions, such as:

- 1. What are the available opportunities to invest in renewable energy?*
- 2. How profitable is investing in renewable energy stocks?*
- 3. Is renewable energy a good investment?*
- 4. Should I diversify my portfolio with alternative energy investments?*

Statistics clearly show that the market for renewable energy has high growth prospects. We are looking at a compound annual market growth rate of 7.5 percent, driven by world economic growth, more incentives for generation and use of renewables, and more cost-effectiveness of renewables. Many international investors have already capitalized on these trends.

If you want to diversify into this market, there are currently two well-established ways of investing in renewable energy stocks, namely: Exchange Traded Funds (ETFs), Sustainable Energy Mutual Funds.

## **1. Alternative Energy ETFs**

An ETF is a security that mirrors or tracks a single sector, market index, or basket of assets. This means that their value fluctuates with that of the particular index or industry sector they are tracking. ETFs can be traded in real time like shares.

Sustainable energy ETFs are attractive investments for individual investors who want to invest in a diversity of financial securities in the sector. They typically have lower fees than mutual fund shares.

The best alternative energy ETFs for international investors are those that offer exposure to the world's largest companies in the renewable energy sector. They include:

- iShares Global Clean Energy ETF (ICLN)
- Guggenheim Solar ETF (TAN)
- PowerShares Global Clean Energy Portfolio ETF (PBD)
- SPDR S&P Oil & Gas Exploration & Production ETF (XOP)
- Vanguard Energy ETF (VDE)
- Invesco DWA Energy Momentum Portfolio ETF (PXI)
- iShares U.S. Oil & Gas Exploration & Production ETF (IEO)

Source: Investopedia, EFTdb.com

## **2. Sustainable Energy Mutual Funds**

A renewable energy mutual fund is an investment vehicle in which investors pool funds to invest in alternative energy companies. Mutual funds take the form of a company, which has the responsibility of investing in viable securities that can provide each investor with a return for their investment. As an investor, you buy shares in a mutual fund.

Examples of alternative energy mutual funds can be found at [altenergystocks.com](http://altenergystocks.com)

## Important Considerations

The risk is an inherent element of any type of investment. Investors need to carefully consider the risk factors associated with investing in renewable energy stocks before putting in their money in the sector.

It is also noteworthy that investing all your funds in one sector increases the risk of your investment as all your returns are dependent on the performance of the sector. Diversify your investment portfolio across different sectors, asset classes, and geographical areas. Your decision to invest in renewable energy companies should, therefore, be a part of a larger plan to build a well-balanced portfolio with other types of investments.

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