

Money Wise

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Colin Bloodworth looks into our wallets and how the weather may change it

Preparing Financially For a Change In Climate

Investing in the climate change theme is an area for serious investors to consider but it should not constitute too big a portion of a portfolio



Just days after the biggest ever storm hit New York, a storm which apart from causing death and destruction, closed down Wall Street, cut off power to millions and shut down the city's subway system for the first time in its 100 years' plus history, is there anyone out there who still believes climate change is not happening?

Is there anything we can do to stop it?

Given that carbon emissions are clearly part of the problem we could make individual contributions such as switching from cars to public transport.

Not so easy if you live in a city like Jakarta where nothing seems capable of stopping the avalanche of private cars and motorcycles entering the scene. In China, barely one person in 50 owns a car. But their ambition is to be on a par with the US, where one in two owns a vehicle.

Singapore alone sets an example to the world by making car ownership prohibitively expensive and by providing a public transport system so efficient that few have need for a private vehicle.

There have been numerous global conferences on climate change. Unfortunately the outcome has been little more than hot air as each country has its own agenda so only limited progress has been made. Maybe a few more big storms, floods and droughts will persuade politicians to act in unison.

Should we be changing our financial planning strategies?

As individuals, we are not able to reverse the trend overnight. But we can at least anticipate the personal effects of climate change and take practical and financial steps to mitigate the effects.

Practical measures would include ensuring we are prepared for floods and other disasters by being adequately stocked with non-perishable foods, drinking water and emergency items like torches and candles. The recent conditions we witnessed in New York could soon be easily repeated in Jakarta.

Financial measures would include checking if we have adequate insurance, both personal in terms of life and medical cover and also general insurance to cover our homes and cars. Be sure to check whether your insurance includes flood damage.

Make sure you have adequate cash reserves to carry you through any emergencies. If

you are an expatriate you should keep funds not just locally but also in your home country or in an offshore bank.

Whether man-made or a natural phenomenon, climate change is clearly happening and one of its effects will be shortages of food, drinking water and other natural resources. This in turn will lead to higher prices and the need for future savings will become even more important.

Are there investment opportunities?

Every cloud has a silver lining and for those who can afford them, there are indeed opportunities that could help to offset the higher cost of living. Until the world embraces greener forms of energy -- the problem is that they are generally too expensive today -- the demand for oil and related products will keep rising.

Consequently, investing in oil and energy companies or funds is bound to be a good long-term play. That is, if you can live with periodic downturns when falling demand depresses prices.

Not only is climate change already leading to shortages of certain foodstuffs, but the insatiable demand for energy is persuading many farmers and even governments to convert crops once destined for the table into biofuels. This too offers opportunities by identifying companies that invest in this area or by investing indirectly via managed funds into forestry or agribusiness. However, expect volatility in the short term. Like energy it should be seen as a long-term strategy.

Interestingly, a fund was launched five years ago that embraces the theme of climate change by investing in companies that are likely to benefit from efforts to accommodate or limit the impact.

Ironically, it has lost money since its launch but has had a return of 14 percent in the past 12 months, suggesting that the world is finally waking up to reality.

Investing in the climate change theme is an area for serious investors to consider but it should not constitute too big a portion of a portfolio: Like gold, it should be seen as a hedge or insurance against possible troubled times.

If the world economies and markets thrive, it could still be a profitable investment and at worst you would have paid a small premium.

Colin Bloodworth, director of PPI Indonesia, has spent over 20 years in Indonesia. If you have any questions on this or a related subject you can contact the writer at indonesia@ppi-advisory.com