



## Politics-free investing

In the short run at least, divesting from oil and gas companies hasn't worked an investment perspective

So far, 2022 has been a very difficult year for most investors. Though the value of most dividend paying companies' shares are also down this year, in general, reliable dividends have historically attracted investment in their shares, especially in difficult market environments. This time is no different.

Notably this year, the energy sector has been the strongest recent performer, with gains for the oil and gas production and exploration sector up over 30 percent. Two of the largest energy companies, Exxon and Chevron, pay very attractive dividends and have had an outstanding year so far.

How can these two companies, and the sector in general, be such an outperformer when there has been a high-powered movement to pressure pensions and other institutions to divest of all fossil fuel investments? In a word: value!

In peaceful and prosperous times, it makes sense to invest in new ideas and technologies, especially if they benefit society. I don't know anyone who doesn't desire cleaner air and water and a healthy environment. Billions of dollars have been invested in the past decade in clean energy companies, and there have been some big winners, like Tesla, which became profitable two years ago and continues to grow, but there will be many losers who will eventually go out of business.

Clean energy companies including Tesla, have been volatile investments, and losses this year have exceeded the broad market indexes.

While billions of dollars were being committed to clean energy companies, similar amounts were being divested from traditional oil production and exploration companies. Last year, a majority of New York City's public employee pension funds divested from securities of fossil fuel companies. The European Union's biggest pension fund announced a similar plan around the same



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### Personal Finance

time. Other large institutions and public investors also divesting from fossil fuels included Harvard University, Boston University and the state of Maine. Are they voluntarily forfeiting potential gains?

Time will tell if divesting is the best long-term strategy. In the short run, it seems to have been the wrong decision from an investment perspective. A report last year from a leading lobbyist for divestiture of fossil fuels announced that divesting is a sound financial strategy, and that fossil fuels are a bad bet financially. It would be interesting to see what their updated report states.

Politicians who influence decisions for city and state pension funds impose their views on the companies in the funds' portfolios. Is that fair to the employees or retirees dependent on that pension if their views differ?

Early in my career, there were divestiture movements against the tobacco companies. They agreed to pay large amounts to settle liability suits, and severe restrictions were placed on the industry's marketing and packaging. Financially devastating, right? Well, the tobacco industry has survived by continually increasing their prices, which has more than offset their lower volume of cigarette sales. Tobacco companies even tried to evolve by developing e-cigarettes and other products claimed to be healthier. To

this day, many tobacco companies pay high dividends that have been sustained for many decades with regular increases and that have served their shareholders well. Many retirees depend on those quarterly dividend payments.

There is a better way than divesting a portfolio from an entire sector of the economy, especially those crucial to so many vital components of our economy.

NextEra is a good role model for companies like Exxon and Chevron. NextEra was formerly known as Florida Power and Light, a utility serving Florida. They expanded through acquisitions, and using profits from their core utility business invested in solar and wind to become the world's largest producer of wind and solar energy. NextEra has an impressive history of increasing its earnings and dividends annually. Exxon, Chevron and other major oil and gas companies are following NextEra's lead and are investing a portion of their profits into clean energy opportunities.

As an investor myself and financial advisor to hundreds of other investors, I know it takes discipline to be successful over the long-term. It is important to diversify with leading holdings in the major industries. Often when investments in a critical economic sector are out of favor and relatively cheap, as the energy sector was two years ago, that may present an attractive investment opportunity. Dividends matter, and companies that have a history of consistently paying and raising those dividends tend to hold up better than companies that don't pay dividends, especially during difficult market environments, like today's. **NHBR**

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