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Three Things Goldman Sachs' $40B Greentech Investment Means, and Two it Doesn't

Goldman Sachs' Investment in Green Tech

More than any other investment bank, Goldman Sachs (NYSE:GS) is famed for its skill at picking good investments. Last week, the bank announced it would invest another $40 billion in green technologies over the next 10 years (or an average of $4 billion a year.) While this is a drop from the $4.8 billion invested in 2011, the last time Goldman Sachs made a commitment to green tech was 2005. The $1 billion pledged then ended up as $4 billion in direct investments of Goldman's own money, and another $24 billion of financing arranged by the bank.

What the Investment Means

We can draw several insights from Goldman's announcement.

1. The announcement is public relations (PR)

Since the $4 billion per year pledged is less than what Goldman is already investing, this is not a new commitment, or a stretch goal.

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2. The investments are more than PR

Since the investments are real, this is not greenwashing (trying to give something that's not really green the appearance of green.) It's not new, either. Goldman simply wants to be known for their green tech investment expertise.

Fair enough.

3. Goldman thinks there are good investments to be made in greentech

Goldman's track record of investing more than promised means that the investments are being made for non-PR reasons. Since they are not greenwashing, Goldman must be investing for some other reason. Goldman Sachs is known more for being hard-nosed than for dreaming of butterflies and unicorns, so it's a safe bet that they're investing because they expect to make good financial returns. A few PR points scored along the way are icing on the cake.

The head of Goldman's clean technology and renewables investment banking group, Stuart Bernstein, says green tech is a "quite large" emerging investment opportunity, and compared it to investing in the BRICs (Brazil, Russia, India, and China) over the last decade.

What it Doesn't Mean

1. Goldman Isn't Buying Everything Green

Goldman's investments since 2005 have been successful, or the bank would be unlikely to be coming back for more. Yet the leading clean energy ETF, the Powershares Wilderhill Clean Energy ETF (NYSE:PBW), has fallen 70% over the same period. Clearly, Goldman was not just passively investing in a basket of green stocks, as PBW does.

Going forward, Goldman will continue to choose green investments carefully, just as they choose their investments in the BRICs. Not every investment in Russia or China has been a good one, and not every green investment will be a good one going forward.

2. This is not an Endorsement of Green Stocks

A few weeks before Goldman announced the new commitment, the investment bank downgraded First Solar (NASD:FSLR) stock to Neutral, and slashed its price target. The $40 billion announcement was not some coded reversal. Goldman was saying that while First Solar may not be a great investment right now, there are plenty of very profitable opportunities in green tech. Many of those opportunities will be investments in renewable energy deployment: wind and solar farms, as opposed to wind and solar manufacturers.

Conclusion

It's a mistake to assume that just because Goldman thinks there are many profitable opportunities in green tech, all opportunities in green tech will be profitable. Right now, I think the most profitable investments are likely to be investments in renewable energy and energy efficiency deployment: wind and solar farms, and upgrades to facilities to make them more energy efficient.