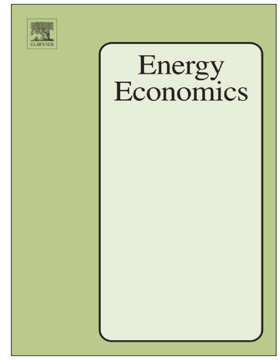

Let's Agree to Disagree! on Payoffs and Green Tastes in Green Energy Investments

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on Payoffs and Green Tastes in Green Energy Investments

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Abstract

Of strong debate is whether firms lose in costs or benefit in financial performance, (e.g. savings) for being environmentally responsible. We examine the "Disagreement, tastes and asset pricing" theory of Fama and French (2007) which states that investors' disagreement over payoffs and consumer tastes can substitute for financial performance. Thus, it suggests that green energy firms could have comparable value with non-green firms. Green energy firms can represent an asset which has high disagreement over payoffs and offer investors a pro-environmental choice. We show disagreement in payoffs and green tastes moderate the effects of investor demand which influences green firm performance, but not non-green firm performance. Consequently, we show that green energy firms perform at least as well versus matching non-green energy firms with risk adjusted performance and alpha, and better performance than the S&P 500 Energy index in the last 24 years. Therefore, green investors are neither bearing a cost nor getting suboptimal financial performance from energy firms who pursue environmental objectives. Our results support the role of investor preferences for disagreement and tastes, investor demand and asset pricing of socially responsible investments.

JEL Code: G11, G12, Q40, Q42, Q51

Keywords: energy, alternative investments, environment, performance, disagreement, tastes

1. Introduction