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<http://www.marketwatch.com/story/green-shoots-for-green-energy-stocks-and-funds-2011-02-01>

Green shoots for green energy stocks and funds

Oil spike, global demand renews investor interest in volatile sector

Oil topping \$90 a barrel and expectations that prices could move higher as the U.S. economy recovers would seem to set the stage for a revival of alternative energy stocks.

Instead, companies that produce solar, wind, and other sources of alternative energy are having a tough time recovering from the brutal battering they took during the global market meltdown in 2008.

Egypt sparks fears of oil and commodity inflation

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Yet some see hopeful signs for these stocks and the mutual funds and exchange-traded funds that invest in them. Tom Konrad, an investment manager and editor of altenergystocks.com, said that with share prices and valuations so low, a bull market, along with increased financing for so-called clean energy projects, would give these companies a spark.

“If the overall stock market does not collapse and drag clean energy with it, I believe that 2011 has the potential to be an excellent year for clean energy stocks after three years of heavy selling,” he said. “Even if the market stays flat or trends down slightly, they would likely do better than the overall market.”

Fighting headwinds

Such optimism has been rare since the alternative energy sector boomed several years ago. One bellwether, the PowerShares WilderHill Clean Energy ETF (PBW 10.99, +0.14, +1.29%) , rose 58% in 2007. But it plunged 69% the following year, compared to a drop of

41% for the NASDAQ Composite Index (COMP 2,809, +18.99, +0.68%). Over the last two years the ETF has lagged its small-cap benchmark by a substantial margin.

Stocks and mutual funds in the space have seen a similar pattern. In 2008 stock of First Solar Inc. (FSLR 166.11, +8.64, +5.49%) , the largest solar company in the U.S. and a major holding in a number of alternative energy mutual funds and ETFs, whipsawed from a high of \$317 to a low of \$85 a share, and was recently trading at less than half its 2008 high. Many solar and wind stocks have fared even worse.

Heavy reliance on government subsidies and higher costs compared to traditional power sources are two major reasons these stocks have sputtered. Competition from low-cost Chinese solar panel manufacturers, scarce funding for capital-intensive projects, economic downturns in Europe and the U.S., and unaccommodating political policies have also weighed down the sector.

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For those wanting a more diversified approach, “green” mutual funds and exchange-traded funds offer exposure to alternative energy in varying degrees.

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Among exchange-traded funds, the oldest and largest alternative energy offering, PowerShares Wilderhill Clean Energy, has about \$550 million in assets. It invests heavily in wind and solar stocks but also has assets in other sectors such as information technology and materials.

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