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Will Clean Energy Thrive?

It wasn't that long ago that crude oil was over \$150 per barrel and the world was clamoring for alternative energy sources. Politicians and the public were angry and motivated. Clean energy stocks were soaring and the moon was the next stop. But shortly thereafter, oil prices dramatically fell and the financial crisis took center stage. What happened? And is clean energy investing still a good investment theme?

Like most emerging industries, alternative energy is volatile and littered with risks. Most companies within the sector have yet to turn a profit. It's very similar to the good old days in the late 1990s when many Internet startups were all promise and no profits. Some succeeded, but most failed.

Robert Wilder CEO and founder of Wildershires describes today's clean energy market as a "mixed bag." And in 2010, clean energy stocks have lagged conventional energy stocks along with underperforming broader stock indexes.

Does this spell trouble for alternative energy sector?

Alternative energy typically uses renewable resources like sunlight, wind, rain, tides and geothermal heat to produce energy. Unstable oil prices, concerns about global climate change and the U.S. government's growing support of renewable energy through legislation have driven the push to commercialize alternative energy sources.

Still, alternative energy faces many obstacles.

Tight credit markets along with falling natural gas prices have eliminated or stalled many alternative energy projects. Even without these obstacles, new methods for producing energy can take many years before becoming accepted standards. Furthermore, for alternative energy to really succeed, people's behavioral patterns must shift away from old ways of thinking to new ones.

Investing in Clean Energy ETFs		
Fund Name	Ticker	YTD Performance*
Claymore/MAC Global Solar Energy Index ETF	TAN	-16.73%
First Trust ISE Global Wind Energy Index Fund	FAN	-10.92%
iShares S&P Global Clean Energy Index Fund	ICLN	-14.50%
iPath Global Carbon ETN	GRN	+13.69%
Market Vectors Global Alternative Energy ETF	GEX	-4.32%
Market Vectors Solar Energy ETF	KWT	-15.34%
Market Vectors Nuclear Energy ETF	NLR	-0.13%
PowerShares Global Wind Energy Portfolio	PWND	-14.69%
PowerShares WilderHill Clean Energy Portfolio Fund	PBW	-5.82%
PowerShares WilderHill Progressive Energy Portfolio Fund	PUW	+7.77%

*Through 4/22/10 market close

Many companies within the alternative energy sector are funded by venture capitalists and not yet publicly traded. The vast majority of investors will never get the opportunity to invest in venture funded start-ups and even if they could, most probably couldn't stomach the risk.

The next best option may be alternative energy ETFs. Let's analyze them.

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Solar Potential

Solar energy uses photovoltaic panels to capture energy from the sun which is then converted into electricity. In 2009 around 2,000 megawatts of solar capacity were generated. Still, solar energy accounts for less than 1 percent of U.S. electricity production.

After recording large gains over the past five years, solar stocks have recently stalled. "The sector is now seeing pricing pressure as cheap China panels flood the market and margins collapse," observes Wilder. "In time increased global capacity to make panels may lead to some select stock winners, but now is not that time."

Solar ETFs like ... have lagged the broader stock market by posting double digit year-to-date losses. Put another way, solar stocks have become a contrarian investor's delight.

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Transportation Plays

Those who believe the clean transportation movement is a head fake might want to reconsider. Warren Buffett has placed his bets on China

BYD, which plans to unveil a compact electric car to be sold in China later this year. Venture capital juggernaut Kleiner Perkins Caufield & Byers is backing Fisker Automotive, a maker of environmentally friendly sports cars.

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Broader View

For a broader industry sector approach, see the ..., PowerShares WilderHill Clean Energy Portfolio Fund (PBW) or the PowerShares WilderHill Progressive Energy Portfolio Fund (PUW).

Each of these funds cover a range of emerging technologies like biofuels, wind power, hydroelectricity, geothermal power and solar energy. Instead of betting on single technology, a diversified approach allows you to capture the power of many. Annual fund expenses for diversified clean energy ETFs run between 0.60 and 0.62 percent.

Despite poor performance by clean energy ETFs, a reversal is never off the table. Wilder notes, "Oil is volatile and another spike over \$100 could mean back to the races for clean energy." However, with alternatives more costly than conventional energy, they could flounder for a while longer.

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