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Be conservative when investing in emerging energy sector

Risk awaits the early investor - but so do rewards for those who choose wisely

KEIR CLARK

SMART MONEY

If you want to know how to prepare for cold weather, ask an Innu.

For hot weather - talk to someone living near the equator.

If you want to know how to deal with high fuel costs, watch the Europeans.

Fuel costs have been high in Europe for the better part of a generation.

With gasoline prices at the unprecedented levels we have seen lately, there is renewed interest in finding ways to make more cost effective choices.

Very few of us appear to be ready to give up the independence of jumping into our wheels to go where we want, when we want - even paying \$1.40 per litre for gasoline.

The most obvious difference between what automobile buyers do in Europe and what they do in North America is, in Europe they buy diesel powered cars & trucks.

In fact, while diesel automobile sales represent only a few percent of total sales in North America, in Europe 40% of autos sold are powered by diesel engines.

I understand the percentage is even higher in the European luxury car market.

North Americans seem to believe that today's diesel engines are like they were 25 years ago when slow, smokey and smelly were the most often used words to describe them.

Just like most other consumer products we use, there have been significant technological improvements over the past twenty five years.

You only have to compare the black dial telephone sets we were all using in 1980 to things such as the Blackberry on my belt today to get a sense of how much things have changed.

Developments in diesel engine technology over the last 25 years are similar.

Enough about diesel versus gasoline.

When it comes to investing, you may be thinking one step ahead to the next technology to be used when gasoline and diesel become too scarce and expensive for us to use in our vehicles.

There are a number of companies working on cutting edge technology designed to reduce our fossil fuel addiction and clean up our environment.

One of the most highly regarded alternative fuels is hydrogen where the only waste product would be water.

The problem faced by investors interested in buying emerging technologies early is that it's impossible to know in advance which technology will emerge as the ultimate winner.

The risk of buying shares in a company that doesn't survive is significant.

Until very recently investors couldn't buy an investment which gave them exposure to a broad group of companies in this alternative energy sector.

In March 2005 an exchange traded fund (ETF) called Powershares WilderHill Clean Energy Portfolio began

trading on the American Exchange (AMEX) under the symbol PBW.

It is essentially an index fund that trades on the stock market and mirrors the WilderHill Clean Energy Index.

Constituents of this index include companies focused on renewable energy supplies harvesting, energy storage, hydrogen production, energy conversion, cleaner utilities, power delivery and conservation.

Some of the top holdings of the portfolio are; Ballard Power Systems, Evergreen Solar, Energy Conversion Devices, Medis Technologies, Active Power, and several more.

Since its inception in March of this year, Powershares WilderHill Clean Energy Portfolio has produced a 16.60 per cent pre-tax return for investors.

Trading near \$18 US per share, it is affordable to add a meaningful number of shares to a portfolio.

A word of caution is necessary for people interested in buying into these emerging technologies. Although buying this investment helps to manage some risk of buying just a single company, companies in this area of the market are early stage, speculative investments in products and processes that may never have any commercial success. You'd be well advised to limit your exposure to this sector. While being an early investor can have huge rewards when things work out well, things often don't work out as you expect.

Whether now is the time to add this type of exposure to your portfolio or not, there will come a day when our traditional sources of fuel become so scarce as to be unaffordable.

As with anything you read here, please consult your own financial advisor to find out if this type of an investment is right for you.

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Keir Clark, is an investment executive, financial planner and life underwriter with ScotiaMcLeod, in Fredericton, NB. He can be reached via email at keir_clark@scotiamcleod.com or by telephone at 450-6465.