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Venture Capital Goes Big for Green

For choosy investors, there's still time to hop on the "green" bandwagon.

By Matthew Mogul

For venture capitalists nowadays it's all about green -- green companies, that is. Seed money for environmental and clean energy firms is on course to double this year to \$3 billion after more than doubling in 2006. Green investments will account for over \$1 out of every \$10 in venture capital investments, while green initial public offerings will surpass last year's \$1.2 billion, which was more than triple the \$370 million raised in IPOs in 2005.

The torrid pace brings back memories of the dot-com boom, when investors threw cash at anything even remotely related to the Internet, whether it was making money or not. The numbers tell the story: In 1997, investors put \$2.5 billion into Internet start-ups. In 2000, investments ballooned to \$43.7 billion.

But there's really no comparison. This time, investors are focused on firms with proven profit potential. In addition, green companies will draw sustained support from long-term trends: rising fuel prices, declines in renewable resources such as oil and natural gas and the need to reduce global warming and worldwide pollution. Government subsidies for environmentally friendly firms are also likely to increase, giving a boost to the bottom lines of green companies for the near future.

Of course, not all green companies will be winners. Some may be betting too heavily on companies that are already expensive, especially those based on solar and biofuel energy technologies. Out of 1500 green-related start-ups last year, 930 were in the energy sector. Several energy-related firms have flopped since their market debuts, prompting others in this category to delay their planned IPOs this year.

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Another low-risk option for tapping the green boom is to buy shares in large blue-chip companies that run green divisions, such as Dow Chemical Co., DuPont and General Electric, all of which have diversified sources of revenue. Or perhaps consider prominent green mutual funds Guinness Atkinson Alternative Energy Fund, Winslow Green Growth Fund and the exchange-traded PowerShares WilderHill Clean Energy Portfolio.

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