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Flamebait: Global warning - green is set to be the new blue-chip

By Keith Woolcock (Filed: 27/04/2006)

For the last year or so various individuals have been sidling up to me in corridors and whispering in my ear. Some have even gone as far as to offer to buy me lunch. There was also the promise of a night out with the French actress of my dreams, though I think this might have been a joke. You can never be sure when the offer comes from a Mayfair-based hedge fund manager.

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Yes, there have been times when I have felt like a Viagra salesman visiting a retirement home. Luckily though, I have a sensible head on my shoulders and am wise enough to see that quite a few people in my line of work - the peddling of stocks and shares - have been on the receiving end of similar offers lately. That's what happens when the world is awash with cash, normally sensible

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people become quite frantic. You can have whatever you want, they say, just give us the what, where and when of the next investment bubble.

Forget missing an elephant in the living room, this is more like ignoring a sperm whale in a paddling pool. It's been obvious since George Bush made his state of the union speech on January 31: alternative energy is the next investment bubble.

Just in case anyone did miss that sperm whale, Mr Bush has been hammering home the message this week. Over the weekend he gave a speech about the need to increase investment in alternative energies such as hydrogen and ethanol. As a result shares in Ballard Power Systems, one of the largest alternative energy companies in North America, rose over 20pc. The contagion has even spread here. Last week shares in ITM, a home-grown play on the hydrogen economy, rose 60pc in one day, while Voller, a tiny alternative energy play quoted on the Aim market, has just spurted 20pc.

On Tuesday Mr Bush was at it again, addressing the Renewable Fuels Association in Washington. He repeated his promise to increase investment in ethanol, a fuel usually made from corn, as well as boosting research into developing hydrogen as an energy source. Then he announced several proposals aimed at spiking the gushers of hot money blamed for driving the oil price up to \$75 this week.

In the wake of Mr Bush's speech the US benchmark oil price for June delivery dropped 93 cents to \$72.40 a barrel, and US gasoline futures fell more than 2pc. Oil might wobble, but few doubt that it is heading higher over the coming years. As Mr Bush's mentor Ronald Reagan once said, no one has yet repealed the law of supply and demand.

Energy is becoming a big issue in the US, which means that a growing number of politicians are starting to sound a lot like those "cranks" and "weirdos" who have been warning us about global warming. The Democrats can be counted on to make it an issue in the mid-term elections in the autumn and Senator John McCain, who is likely to run for the presidency when Bush goes, has also been dropping hints about making energy a plank of his campaign.

In economic terms there are two approaches to the energy crisis - there is the classic Adam Smith way, which preaches the gospel of supply and demand, and there is the Joseph Schumpeter way, which highlights the importance of cycles of innovation. The Americans have always been big fans of Schumpeter and so are relying on being able to innovate themselves, and hopefully the rest of us, out of the problem. This is where it gets interesting for investors.

The world is awash with cash looking for performance and, as a result, alternative energy stocks are moving swiftly from the doghouse to the penthouse. Many of these companies are small and still in the realms of pure concept. When concept meets cash it's party time - but watch out for the hangover. Ballard shares dropped 20pc two days after going into orbit, however it is still up two

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and a half times since January.

Let me explain a little further. Take the Wilderhill Clean Energy Index, a US share index that is as good a proxy as you can find for alternative energy stocks. The total value of this index when Bush stood up to make his speech on Tuesday was \$128.8bn (£72.4bn); year to date it has risen by 44pc.

By comparison Microsoft alone has a stock market value of \$280bn. Now Microsoft is a fine firm, but how can it compare with a bunch of companies that have it in their power to solve one of the mightiest problems facing modern man?

Interestingly, Bill Gates has just pumped more than \$80m into Pacific Ethanol, one of the leading alternative energy firms in the US. Gates is not alone, Vinod Khosla, one of the founders of Sun Microsystems and now a venture capitalist, and Bob Metcalfe, who invented Ethernet, the world's most popular form of data network, have each been investing in alternative energy.

As alternative energy moves centre stage big institutional investors will struggle to find ways of playing what is becoming the most talked about investment theme of the day. Let me use the example of Ballard again to explain. Year to date the Canadian firm has risen by around 140pc, yet it is still only valued at C\$1.25bn (£645m). Remember good old supply and demand - there are not enough alternative energy firms out there to meet a surge in demand.

So take this as a hype warning, the more conceptual the stock the better it is likely to perform over the coming months. Speculative bubbles mark the top of bull markets and alternative energy looks like being this year's bubble.

- Keith Woolcock is a director of WestHall Capital, an independent research stockbroker

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