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Focusing on Alternative Energy Plays

The volatility and uncertainty in the energy sector created by the Middle East uprisings may have some longer-term effects on the market and the energy sector. The primary concern at the moment is the stability of supply and the potential in the short-term for a meaningful disruption. Money is flowing back and forth in a volatile manner as traders attempt to "game" the outcome of current events. We believe the net effect of the situation -- no matter what the outcome -- will be structurally higher oil prices in the future. Therefore, it's time to start looking at second derivative trades in the alternative energy sector.

Our guess is that current events and oil prices hovering around \$100 per barrel will refocus investor interest in alternative energy. The coal, solar, nuclear and "progressive" energy names will likely benefit from the spike in oil prices. We suspect the group could become an area of relative strength following a corrective decline in the broader market, which is typically a time when new market "regimes" are able to take hold. The alternative energy theme died and prices for these stocks dropped as energy prices collapsed during the global recession in 2008. The fairly quick recovery back toward post-recession highs in oil prices should be a wake-up call for investors. If energy prices remain elevated, and we suspect they will, then the alternative energy theme should come back in full force.

Nuclear energy related equities are starting to emerge from large base formations and are early-stage bullish trades. The Chinese have embraced nuclear energy as they struggle to keep up with electrical demand and it is a key part of their energy policy moving forward. The progressive energy sector, which includes any company working with alternative energy (electric, solar, related materials, etc.), has shown good relative strength as a group, but the higher profile segment of the sector such as solar and wind power have struggled recently. We suspect these sectors will start finding a bid and moving out of large base formations. Changes in government subsidies,

domestically and in Europe, have had a bearish impact on the alternative energy sector recently. We're willing to make the bullish bet that energy policy will become much more favorable to alternative energy companies as crude oil hovers around the \$100 level or higher. We suspect alternative energy subsidies and tax incentives will become entrenched in policy going forward.

Recent events in the Middle East will likely have longer-term repercussions on traders' psyches in relation to the energy sector and their long-term view of energy supply. We suspect the alternative energy theme will become important once again and sector will move to the forefront of traders' minds. Many alternative energy ETFs were formed during the last run-up in the sector and investors need to be careful not to get into a fund with a very narrow exposure to the group. We like the emerging technical strength in the weekly chart for the ... which is a bet on the long-term resurgence of nuclear energy and the bullish relative strength in the **PowerShares Wilderhill Progressive Energy ETF (PUW)**. PUW is focused on companies, which are developing transitional technologies and solutions. These companies are typically mature stocks in the material, chemical and energy sectors. PUW is trending higher and has shown strong relative strength. Traders can use any broad based market weakness to take long positions in this fund.