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For new energy plays, go beyond ethanol

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Q: I would like to invest in the production of ethanol. What's the best way to do this?

A: There's a bit of an ethanol gold rush going on.

Uncertainty in the Middle East, worries about the long-term availability and pricing of oil and federal incentives for ethanol production are prompting many companies to try to cash in. Chris Woodyard, auto reporter at USA TODAY, recently wrote [a story that describes the ethanol craze](#) and the rush to build plants.

Whenever there is federal money for a project, companies and entrepreneurs will emerge to take it. Perhaps the largest player so far is Archer Daniels Midland ([ADM](#)), which plans to boost its ethanol production about a third to 1.5 billion gallons a year by

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Investment primer

2008. Unfortunately, you and I aren't the first people to realize this; shares of Archer Daniels Midland have soared 44% the past year.

Then there's Pacific Ethanol ([PEIX](#)), which plans to open a \$50 million ethanol plant in California this year. Again, this hasn't been missed by investors, who have sent its shares up nearly 100% the past year.

But a bit of caution is warranted. As in every gold rush, investors tend to get ahead of themselves in a speculative frenzy. They over-invest in production capacity or overpay for companies in the industry. This has happened time and time again in everything from fuel cell companies to Internet stocks to telecom.

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ADM currently has a price-to-earnings ratio (P-E) of 22, which is well above its historical range. That is a top reason why Standard & Poor's stock analyst Joseph Agnese has a "hold" rating on the stock. Pacific Ethanol is even more speculative. During the nine months ended Sept. 30, 2005, the latest regulatory filing available at the time this story was written, the company posted a loss of \$4.8 million. I know this is a development stage company, but when a company has no earnings, you're taking a huge gamble.

O.K., so you understand the risks but insist on being invested in clean energy. You might consider the Powershares WilderHill Clean Energy (PBW) exchange-traded fund. This ETF owns stakes in a number of companies developing new types of energy, including Pacific Ethanol. By spreading your bets, you can reduce your risk and increase your exposure to different types of new energy stocks. You can [read more about this investment](#).

Matt Krantz is a financial markets reporter at USA TODAY. He answers a different reader question every weekday in his Ask Matt column at money.usatoday.com. To submit a question, e-mail Matt at mkrantz@usatoday.com.

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